

The New REPUBLIC

A Journal of Opinion

VOL. XLIV

NEW YORK, WEDNESDAY, NOVEMBER 4, 1925

NUMBER 570

Contents

The Week.....	265
Editorials	
More—and Better Religion.....	268
Our Scientific Secretary.....	270
Tightening the Bonds.....	271
The Case of Anita Whitney.....	272
General Articles	
Keep Your Desk Clear.....Robert Littell	273
Soviet Russia—II.....J. M. Keynes	275
The General Election in Canada...J. A. Stevenson	277
Late Autumn, Early Winter (verse).....	
.....Marjorie Meeker	279
James Joyce as a Poet.....Edmund Wilson	279
Craig's Wife.....Stark Young	281
Washington Notes.....T. R. B.	282
Against Fog (verse).....Rolfe Humphries	283
Shake Your Feet.....Gilbert Seldes	283
A Man Bereaved (verse).....Padraic Colum	284
Correspondence	285
Reviews of Books	
Tchekhov.....Robert Morss Lovett	286
Bygone Travel.....Eileen Power	287
The Age of Seduction.....Edwin Björkman	288
Growth of the Mind.....George Humphrey	288
Southern Pioneers.....A. W. Vernon	289
Emil Fuchs.....L. M.	289

The Week

IN the same wrapper with this issue every subscriber to the New Republic will receive a supplement on federal taxation written by Prof. Ernest Minor Patterson. In this supplement Prof. Patterson examines the arguments which are being urged in support of Mr. Mellon's plan for tax reduction and revision. He tests the validity of these arguments both by scrutinizing their claim to be considered as sound economics and by comparing them with what we know about the operations of the present law. In placing Prof. Patterson's investigation before our readers, we have sought to accomplish a result which seems to us of some public importance. Ever since Mr. Mellon first began his agitation in favor of reducing taxes (particularly the super-taxes on large incomes), he and his aids have insisted that his plan of tax revision was unexceptionable as a matter of economic theory and would actually benefit the wage-earner and small property-owner no less than the millionaire. The newspapers

have popularized this claim, and if the professional economists have objected to it, they have not precisely broadcasted their objections. How far it is justified we leave to the judgment of those people who will take the trouble to read Prof. Patterson's able, painstaking and disinterested investigation.

ON virtually every point the New Republic disagrees with the administration program of "tax reform." Yet we do not find ourselves in much completer agreement with any opposition to the program which has yet been expressed in Congress. We favor less tax reduction than does Secretary Mellon, so that the war debt may be paid off more rapidly; the Democrats seem to favor more reduction than he and further postponement of debt retirement. So far as any reduction may be advisable either now or in the future, we should like to see it in the lower, not in the higher brackets. We should, indeed, favor the restoration of an excess profits tax as one of the best means of transferring to public uses the otherwise inaccessible gains of quasi-monopoly. The Democrats, it is true, are for reduction in the lower brackets, but not against reduction in the higher ones. Their guiding concern seems to be to curry a little more political favor than the Republicans by outdoing their reduction program.

WE heartily oppose abolition of the federal estate tax, and in this we find ourselves in agreement with Chairman Green of the House Ways and Means Committee and perhaps with a majority of Congress. We do not, however, like Mr. Green's own proposal except as a second-best way out of the present inequalities of burden arising from the confusion of state and federal inheritance taxation. Mr. Green is correct, we believe, in pointing out that if the federal estate tax were abolished, the states might easily compete with each other in abolishing their estate taxes also, in order to prevent rich men from removing to Florida or other states which offer them special immunities. Mr. Green proposed that the federal government levy, up to a fixed percentage, whatever tax on estates the several states themselves do not collect. This would tend to equalize the burden so that any estate of a given size anywhere would pay the same total tax, if not to the state, then to the federal govern-

ment. It might also, however, cause the states to compete with each other to collect the whole tax, leaving nothing for the federal government. This would be undesirable on account of the national origin of our great fortunes and the justice of distributing their public benefits nationally. New York state, for instance, might collect and spend for its own citizens the estate taxes on well-nigh half the nation's inheritances, though the industries which built the fortunes—such as oil, steel, etc.—had received contributions from all over the country. The goal to be sought is, we believe, a fixed federal estate tax, and uniform state taxation; the latter to be reached through interstate agreement.

PUBLICITY of income taxes is, we think, a step in advance, and the way out of the unsatisfactory operation of the present measure is not repeal, but another step toward more complete publicity. The notion that publication of the facts regarding incomes is a meddling interference with private affairs arises from the survival of the old and no longer desirable conception that private gain is the sole object of economic activity, and that a man has rights in his business as personal and inviolable as in his home. The majority of business and professional activities today are so intricately connected with the common welfare that they should be regarded as public trusts. We already have detailed financial knowledge of railroads and public utilities; and corporations which wish to market their securities publicly make at least a pretence of public accounting. If such corporations were forced to make their financial statements jibe with their income tax reports the result would be clear gain. Other business firms may not have responsibilities to distant stockholders, but they do have responsibilities to labor and consumers, and should not be immune from publicity. As to individual incomes, they are already known in the case of millions of public employes and wage-earners. We are accustomed to checking up earnings with service rendered in such cases. Why not with everybody?

AFTER a prolonged and unwholesome delay, the economic and political predicament of France is gathering to a head which unless it is lanced will soon have to burst. M. Caillaux has failed. The French budget is still nowhere near balanced. The national debt continues to increase. The national credit is steadily becoming more seriously questionable. The value of the franc is again gravely compromised. If it is to be rescued, heroic measures are necessary which M. Caillaux has refused to undertake. He will not consider either a capital levy or the conversion of the debt at a lower rate of interest. Presumably he and the Painlevé government will fall soon after the meeting of the Chamber. Should they fall, they ought to be succeeded by a new instance of that familiar device in French politics—a ministry of national defense.

If heroic measures are necessary, a government which derived its power from an ordinary party majority will not be strong enough to carry them. They will either have to be underwritten by a coalition of all the parties which are loyal to the Republic or, if no such coalition is possible, they will have to be forced upon the French nation by some aggressive, determined, courageous and unscrupulous minority.

EVERY well-wisher of France will hope that a ministry of national defense which is loyal to the Republic and to parliamentary government can be assembled. But it is doubtful. The different Republican factions seem to be irretrievably divided as to the nature of the plan which shall be adopted to rescue France from financial collapse and repudiation. One plan would assess the cost of financial salvation chiefly on the small property-owners, another on the financiers, another on the industrialists, and still another on the wage-earners. There is impending a class conflict in which M. Caillaux in his speech to his constituents has already sounded the first gun. Perhaps the representatives of these warring interests will finally pull themselves together and agree upon a satisfactory compromise, but if not, the only alternative would seem to be a temporary dictatorship by the leaders of the most aggressive faction, which is presumably the financiers and industrialists. In any event the year 1926 is likely to be a critical one in French history. The French people have a heavy bill to pay. Their politicians ever since the Armistice have been trying to transform victory into some form of magic which would enable France to escape from her own unescapable responsibilities. They have tried to shift those responsibilities as much as possible on Germany, Great Britain or the United States; and in the meantime the obligations have themselves enormously increased. In 1926 the overdue settlement will have to be made. What form it will take and what its social and political consequences can be is at present merely a matter of apprehensive conjecture.

REJECTION by Painlevé of the interim agreement with the United States on the French debt is the logical outcome of the failure to borrow a large sum from private American sources to finance the present need of the French government. American bankers are naturally loth to lend still more to a debtor who has not established his solvency by caring in some way for his previous obligations. The irony of the situation is, however, that the urgent need of a new loan will probably lead the French government to make promises to pay the war debt which cannot possibly be performed, and consequently will render less security to new borrowers than at present. A loan made under such circumstances would ultimately be injurious to both countries. Until the French people are ready to

recognize their desperate situation and make the costly sacrifices necessary to financial stability, and until the American people are ready to admit that most if not all of their war loans to France represent a dead loss, no salutary financial arrangements can be made between the two countries.

AT this writing the Nationalists, who are the strongest single party in Germany, have withdrawn from the Luther government. They have decided that they cannot endorse the Locarno agreements. If they do not revoke this decision, it becomes doubtful whether those agreements will be ratified by the existing Reichstag. In that event Messrs. Luther and Stresemann will have to decide whether they will try to secure ratification by means of a coalition of all the other parties except the Communists, or whether they will take the issue to the German people by dissolving Parliament and ordering a general election. The second course would seem to be more congruous with the process of democratic self-government. In signing the agreements Germany is making one of the gravest of all possible decisions, and if the government received as the result of a special election a clear popular endorsement an additional authority and solemnity would be added to the affirmative decision. On the other hand if the government feared the possible rejection of the agreements by the voters, they would have a most difficult choice to make. They would have to weigh the probable cost of rejecting the agreements against the cost of ratifying them without the clearest evidence of the approval of a substantial majority of the German people.

THE New York municipal campaign which has just come to an end was the dullest, most apathetic and least interesting for many years. The Democratic primaries had exhausted the only real opportunity for a fight. The comparatively educated and well-to-do people of New York City decided in the spring that in the election of this fall they would sacrifice every other political object to the downfall of Mayor Hylan. But they were quite incapable of assuring his defeat without the assistance of Governor Smith and Tammany Hall; and they were willing to pay any necessary price for this assistance. Governor Smith undertook the disagreeable job, and as a reward he was allowed to name practically without opposition the next mayor of New York City. Opposition would in the circumstances have been vain, but the Republicans in order to save their faces had to make a pretence of it. They nominated an unknown and unimpressive candidate who was entirely lacking in political availability. The consequence is that at least half of the good government and civic welfare associations who for years have lived on their denunciation of Tammany Hall have announced their intention of supporting the Tammany candidate. For the first time since the exposure of the Tweed ring, an out-and-

out Tammany politician, with the virtues and weaknesses of the type, is being elected mayor of New York with the practical connivance of the business and professional classes and of the few remaining municipal reformers.

THE conspicuous result of this connivance of the "better element" at the success of Senator Walker is a noticeable increase of the cynicism which is becoming the chief popular comment on prevailing political contests. No citizen of New York except those who belong to the hopelessly minor factions or those who expect favors from Senator Walker have been able to discover anything of interest to vote for or even against. The Mitchel and the Hylan campaigns were fought on important issues and brought forth sharp clashes of conviction. But during the recent campaign, the issues were decided in advance and it was necessary to exclude vigorous or independent personalities who might compromise the decision. The winning candidate had to be above all a man who was accustomed to obeying orders. His job is to build subways, and if necessary when the time comes to increase fares for the purpose. Knowing New Yorkers are looking forward to four years of the kind of government which will be amenable to influence of all kinds and particularly of the right kind.

NORMAN THOMAS, the only genuine opposition candidate, has conducted an aggressive and enlightened campaign. His speeches exposed lucidly and eloquently, but without bitterness, the empty pretence upon which rested the claims for support of the candidates of both major parties. They outlined a program of municipal legislation which was intended to deal with the causes rather than with the symptoms of those evils which are making it so difficult for poor people to live in New York City. Within twenty years the municipal government will be obliged to adopt a program of social legislation similar to that which Mr. Thomas proposed. But in the fall of 1925 he has not made any perceptible impression on the dense, cynical, inert, dull mass of public opinion. He richly deserved the support not only of social democrats but of municipal reformers, the political descendants of Mr. E. L. Godkin. He provided them with an excellent opportunity of continuing their protest against machine politics and their work in favor of a program of social welfare. But he obtained practically none of their support. They preferred to accept full positive responsibility for the kind of government which the city would obtain from Walker or Waterman. From the point of view of real-politik there is something to be said for refusing to support a candidate who cannot possibly be elected. But municipal reformers are not supposed to act from the same motives as practical politicians. In the future they will in New York City occupy a position similar in dignity and personal in-

tegrity to that of the progressives within the Republican Party.

AS we go to press, Countess Károlyi is being asked a series of questions by a "Passport Consul" in Paris which "lead her to believe that Secretary Kellogg's refusal to admit her to this country may not be final." Evidently she answered them satisfactorily. It is now the State department's turn to answer a few questions. Why, and just where, are the United States so weak that they must be afraid of the opinions of one individual? What ground is there to suppose that Countess Károlyi is a communist, or that, if she were one, she would be likely to want to sap our foundations, or to succeed if she tried? Is it not true that the chief objection to letting the Countess in is that she is capable of revealing some unpleasant truths about a government which hopes to keep our political and financial support? Isn't the American State department acting as the rubber stamp of the Horthy government? Isn't the silence of the State department partly explained by the fact that the truth in this case would be far from flattering to itself?

LEAVING aside for the moment the matter of the gross injustice of not admitting Countess Károlyi, Americans ought to be angry at a servant who when asked reasonable questions only behaves like a stupid Sphinx. The State department is the instrument and not the master of the American people, and as such it has no right to withhold perfectly ordinary information. Of the hundreds of justifiable questions fired at it in the course of the Károlyi affairs, which threaten to become chronic, practically none has received an honest answer. Plainly the State department is afraid, for the country—which is quite capable of surviving any propagandist of any color, and for itself—because it is vulnerable and knows it. The State department ought to be hauled over the coals of public opinion until it begins to squeak out its confession of imbecility, stuffiness and timidity.

More—and Better Religion

I HAVE tried to indicate what I think the country needs in the way of help under present conditions. It needs more religion. If there are any general failures in the enforcement of the law, it is because there have first been general failures in the disposition to observe the law. I can conceive of no adequate remedy for the evils which beset society except through the influence of religion."—*Extract from a recent address by President Coolidge on the increase of crime, delivered to the National Council of the Congregational Churches of America.*

There is a mixture of understanding and misunderstanding about Mr. Coolidge's advice to his fellow-countrymen on this as on other occasions which challenges analysis. His general thesis is

that the social problem created by the increase or even the existence of crime can not be dealt with adequately either by government or secular education. Only the Christian churches, acting as the spokesmen of religious authority, are capable of infusing into erring men and women the needed disposition to lead a good life. There is something to be said for this contention which we shall say presently. But as the President has stated it, it will not do. He would convert religion chiefly into the handmaid of government. He conceives the church as the trustee of a conventional legal and moral code. Finally he is in effect asking the clergy, who are at present wholly impotent to deal remedially with crime, to share with political officials a responsibility which belongs primarily to the latter and which they are now bungling and shirking to a wholly unnecessary extent.

The truth about crime which Americans most need to realize at present does not concern the ultimate inability of the state to remedy the whole evil. It concerns the failure of the state to do as much as it can to moderate the existing volume of crime. Other governments and the American government at other times have shown much more efficiency in this respect than the several American governments now show. The public officials who are engaged in detecting, prosecuting and judging criminal acts are not as capable and conscientious as they should and can be. They are not themselves sufficiently conscious of the causes, the extent, the consequences or the remedies of their own failure. They have reason to conceal the truth from themselves. They obtain their power as the result of a partisan distribution of political offices and a partisan control of electoral machinery which it is important from their point of view not to disturb. They are not appointed, dismissed or appraised with much reference to their zeal or efficiency. It is almost impossible accurately to estimate the value of their services to the community. They have never established or permitted to be established any agency which accurately records their official behavior and tests their official capability. At the very moment when every citizen of New York, for instance, knows that life and property are shamefully insecure, the police department gives out statistics to prove that crimes of violence are substantially falling off.

In this and in many other ways the government obviously can do very much more to detect, to punish and to prevent crime than it actually does. In dealing with the problem it will need assistance from non-political agencies, but manifestly there is one group of people, not politicians, who are much better educated to furnish this assistance than are the clergymen. We refer, of course, to some of the anthropologists. There is an increasing body of scientific knowledge which throws light on human pathology and which, if the law and professional prejudice allowed, might render help to police de-

partments, prosecuting attorneys and judges much more than it now does to diminish crime. In fact it would superficially be much truer to say that what America needs as an adequate remedy for the evils which beset society is more knowledge of human behavior rather than more religion. Christian religious authority has exerted at one time a more effective influence on practical conduct than it does today, but in those days of comparative clerical prestige society suffered more than it does now from the menace of crime and from impotence to deal remedially with it. The Christian Church has not at any time in its history displayed much ability or much desire to diminish crime. In fact, the clergy have often been as complacent about its existence as the police are today. Organized Christianity has from the days of its recognition by the state sought rather to console and spiritually compensate society for the existence of crime than to find a remedy for it. Often the clergy have conceived it to be the inevitable consequence of human depravity. Students of society are, consequently, counting less on official Christianity to remedy social evils than on science. Religion without science has been tried. Science with or without religion has not. The best chance at present of supplementing the necessary deficiencies of government in dealing with crime is to apply to it the spirit of patient investigation and the method of watchful experimentation which has accomplished so much in other regions of human experience.

It is important; consequently, to begin by recognizing that social problems such as crime cannot be dealt with adequately unless government seeks the assistance of scientific method as applied to human behavior. The failure to recognize this truth was unenlightened on Mr. Coolidge's part. Yet even if he had recognized it, he might still with reason have insisted that the problem of crime, as one aspect of the much larger problem of "good" human behavior, was necessarily entangled with the amount and kind of authority which religious motives exercised over the lives of the ordinary American. Whether or not and how far crime exists in any community will always depend in part on its government, its social institutions and its humane knowledge, but crime, wherever it exists, is ultimately a matter of particular choices by individuals, and the religion of any community is its organized conscious attempt to induce individuals to choose well. No matter how much Christianity may in the past have failed to assist government in dealing remedially with crime, it will in the future have to assume a larger share of the social responsibility for the existence of crime. It will, that is, if it is to continue to play the part of the official religion of an enlightened modern community.

When President Coolidge pleaded in his address to the Congregational ministers for more religion, he would have done well to put in a plea also for a religion somewhat different in quality. The kind of

Christianity which is now preached from the great majority of American pulpits is no doubt a spiritual comfort to millions of people and a capacious reservoir of social standards; but it has never exercised as profound an influence as it needed to exercise on individual conduct, and moreover it has of late years been losing at least part of its former authority. Protestant Christianity in America no longer acts as if it possessed any faith in its ability to control individual behavior. Two generations ago when the churches sought to combat the evils of intemperance, they organized revival meetings and exacted individual pledges of total abstinence. Today they accomplish the same purpose by demanding prohibition. The great majority of them appraise the 18th Amendment and the Volstead Act as a satisfactory example of practical Christianity. The churches summon the state to abate by force an evil which they can not abate by religious authority; viz., the propensity of supposed Christians to become liquor addicts. Nevertheless crime increases and so does the disrespect for law. Then the state in the person of President Coolidge summons the clergymen to assist in obtaining obedience to laws which had to be passed because laymen persisted in ignoring the admonitions of these spiritual censors. The guardians of society seem at times to get their signals mixed.

In the past the clergy have depended for their influence on popular conduct too much on moral coercion. For many centuries they were licensed to threaten the sinner with everlasting suffering in hell and to promise to the faithful everlasting beatitude in heaven, and during this period of moral terrorism they themselves were chiefly spiritual policemen who were armed to prevent laymen from going wrong. In their attempts to control individual conduct, they still invoke the authority which they derive from popular belief in their peculiar access to the sources of righteousness and truth. But this authority is being seriously undermined. The layman is increasingly sceptical of the dogmas which vindicate clerical authority, and this scepticism is merely a deserved and appropriate penalty of the notorious disputes which rage among the official spokesmen of Christianity about its essential meaning. They are losing the prestige which formerly enabled them to obtain some response from laymen to their moral admonitions. At the very time when President Coolidge is calling upon the clergy to bring religion to the assistance of the state, the fundamentalists are proposing to employ the state schools for the purpose of restoring the waning authority of official Christianity. It will be wiser for the representatives of both state and church to consider why they perform their own proper functions so badly rather than to try to escape the consequences of their own failure by calling a no less wobbly partner to their assistance.

Official Christianity is powerless for one obvious reason to answer President Coolidge's call for help.

It has never negotiated a satisfactory agreement with the spirit and method of natural science. Of late years an increasing disposition has existed among some men who call themselves scientists to dispute with the clergy the monopoly which the latter have traditionally enjoyed as the custodians of the truth which makes for human liberation. While individual and social psychologists are still far from justified in claiming a knowledge of human nature so trustworthy that from it they can give instruction in the art of living, they are nevertheless steadily improving their methods of investigation and the value of their results. On the other hand the clergy are standing still or falling behind. There is no doubt a small minority of liberal Christians who are doing what they can to associate Christian promise of redemption with a methodical inquiry into the processes of human behavior, and who expect by this means to emancipate official Christianity from its bondage to traditional rules and principles, but they have made little impression on the mass of the clergy. The great majority of ministers still assume that they know all they need to know in order to do their work. As they see it, their all-important task remains that of exhorting their flocks into accepting their belief as to truths and in following their advice as to conduct. This assumption is undermining the authority of the churches. It is preventing Christianity from exerting the influence which it ought and needs to exert on the way nominal Christians live. For Christianity cannot become, as its Founder proposed, essentially a way of life unless its ministers fully realize the impossibility of redeeming human lives by obeying rules or repeating dogmas. They must lead their flocks to consult life itself in its aspect of conscious methodical experience for the light which they need to carry on the task of human regeneration.

Our Scientific Secretary

MUST a man who has accumulated many millions in an aluminum monopoly, in oil, in banking and other enterprises be accepted as an unquestionable, "scientific" authority on taxation? In the United States it has become almost *lèse majesté* to disagree with any of Secretary Mellon's conclusions. It is therefore fortunate for those who do disagree that his conclusions, especially in his recent testimony before the House Ways and Means Committee, obviously disagree with each other. Though we have no hope that this phenomenon will be noticed by those of large income who like his recommendations, we may find some amusement in recording it.

Mr. Mellon holds that a surplus of \$250,000,000 to \$300,000,000 is imminent, "a figure which it is safe to take as the amount by which taxes can now be permanently reduced." "A sur-

plus of government receipts over expenditures should be distributed just as the profits of any other mutual organization are distributed, among its members—the taxpayers—through a reduction in their forced contributions to the state." Yet Mr. Mellon also holds that a reduction of surtaxes on large incomes, which he recommends, unlike a remission of taxes on small incomes, which he does not recommend, will result in as large tax receipts as before, if not larger ones. What does he really want, a surplus or no surplus? A return of the surplus to taxpayers or no return?

Mr. Mellon argues that to lower the taxes on large incomes provides more capital for industry and thus results in larger production, more profits, and hence in more taxable income. The inference is that if such taxes were not lowered, but the proceeds were applied instead to retiring the war debt, industry would not receive the benefits of so much new capital. Yet when defending the past debt retirements Mr. Mellon said: "Payment means a return of cash to security holders who must immediately find other investments. The Treasury debt payment has turned back to the American people \$5,000,000,000 and this sum has gone into land, farm loans and industrial and other investments. Far from hurting the country, the past policy has been a great benefit to all those who needed capital." If collecting the taxes to pay more of the debt furnishes capital as well as remitting the taxes and paying less of the debt, where is the Secretary's argument?

Mr. Mellon holds that reasonably rapid debt retirement is desirable, both because of the obligation undertaken to the bondholders and because of our present prosperity. "The time to repair your roof is in good weather, not when it is raining." On such grounds he defends the past policy of the Treasury in this regard. Analyzing the sources of debt payment, he finds that 20 percent has come from reduction of the general fund balance (the cash balance of the Treasury), 33 percent from the surplus, 28 percent from the sinking fund and the remaining 19 percent from miscellaneous sources including foreign payments. He explains that since the general fund balance has now been cut to the limit of safety, the 20 percent source will dry up. The surplus he proposes (at least in theory) permanently to abolish—with a loss of the 33 percent. Does he then expect to follow the undesirable policy of retiring the debt half as rapidly as before? Or does he, after the recent experience with France, expect to make up this deficit out of foreign payments?

Chairman William Green of the House Committee asked the Secretary whether the increase of the national income from about \$50,000,000,000 in 1922 to about \$70,000,000,000 in 1924 might not account for the increase of tax receipts under lower rates, rather than the mere lowering of rates. Representative Ogden Mills, apparently speaking for

Mr. Mellon, replied that the reduction of taxes had so stimulated business as to increase the national income. We leave an appraisal of this circular reasoning from an uncontrolled experiment to the logicians and the true scientists.

So far it has not been necessary to depart from the record of the hearing itself in order to bring Mr. Mellon's scientific rigor in question. Elsewhere in this issue Professor Patterson assembles evidence which can be used to confute the Secretary of the Treasury. But in conclusion we cannot refrain from advancing one hypothesis which his scientific researches have evidently not tested. Assume that reduction of taxes on large incomes does furnish more capital for industry than failure to reduce. Assume that reduction of taxes on small incomes does not stimulate the accumulation of capital, but merely increases individual consumption. How is the new capital investment to earn its profits and so create more taxable income? Must it not do so by selling its products to individual consumers? And is there not excess capacity in most industries waiting for consumer demand to catch up with it? Is there not an unprecedented amount of money capital seeking investment? Why then, might it not stimulate prosperity and profits to add to the incomes of small consumers by reducing their taxes rather than to add to the private capital awaiting investment?

If you reduce the tax on automobiles, said the Secretary, you suffer a permanent loss of the revenue in question and can make no more reductions. But if you reduce the tax on large incomes, you release more capital, create more taxable income, and are able subsequently to reduce the automobile tax as well. But may it not work the other way? The automobile market is rapidly approaching saturation. What limits it is the inability of those with small incomes to buy. If you reduce the automobile tax, you decrease the price, enlarge the market, and so create more taxable income. But if you merely reduce the taxes of the wealthy, you encourage the erection of more automobile factories which run a heavy risk of not finding market. What is the answer, Mr. Mellon?

Tightening the Bonds

WHEN a bare majority of the Supreme Court in the Adkins case invalidated the Minimum Wage Law for the District of Columbia as violative of fundamental constitutional rights, Chief Justice Taft, leading for the dissenters, admonished his brethren that "It is not the function of this Court to hold congressional acts invalid simply because they are passed to carry out economic views which the Court believes to be unwise or unsound." The Chief Justice thus voiced the opinion of the great body of disinterested students of economics and constitutional law that the Adkins case had

everything to do with economics and mighty little with law. By denying the power to assure minimum standards in industry where the forces of oppression and depression are likely to be most operative—that is in the case of the fluctuating and feeble body of low-wage women workers—a majority of the Justices, under the form of "unconstitutionality," upset one of the most authenticated and one of the most conservative measures for industrial adjustment. This judgment on economic policy, pronounced by the deciding vote of a single member and through the accidents of a changing personnel of the Court, was rendered on April 9, 1923, almost ten years after minimum wage laws had been fruitfully functioning in a number of states without any demonstrable injury and a great deal of demonstrated gain.

The decision of course gave a jolt to the administration of minimum wage laws all over this country. But the states with changing degrees of energy persisted in their policy in the hope that the Adkins case was after all not the pronouncement of a generalized principle of law but the disposition of a specific statute related to a rather narrow set of circumstances in the District of Columbia. That hope is now dashed by the recent decision of the Supreme Court in the Arizona Minimum Wage case. The specific judgment on the District of Columbia situation, reached by a divided Court after considerable vicissitudes of litigation, has become a settled constitutional doctrine. Its authority, apparently, is to be controlling, no matter how much the demonstrated facts may falsify the assumed facts underlying Mr. Justice Sutherland's opinion in the Adkins case. Here is stare decisis with a vengeance.

Again Mr. Justice Holmes and Mr. Justice Brandeis plough their lone furrows, the former indicating that the Arizona statute must fall only if the Court deems the Adkins case controlling, while Mr. Justice Brandeis registers an outright dissent. This is the first case involving a show of colors by Mr. Justice Stone on social legislation. He aligns himself with the majority without reservations. It is too early to assign him a durable place on the spectrum of the Court's range of social opinion. But one's expectations of him in this most vital field of constitutional determinations ought not to be pitched high.

The condemnation of the specific Arizona law does not call for many tears. It was a badly conceived statute which might easily have been disposed of without dragging down the whole structure of minimum wage legislation. The Arizona law, unlike the prevalent type of minimum wage law, sought to fix wages by legislative fiat of state-wide application, instead of through the device of determining them in a specific industry by a wage board of that industry, composed of representatives of the industry and of the general public. The usual minimum wage legislation, in other words, is a carefully

safeguarded application of a truly scientific method in the adjustment of wage determinations in industries where the bargaining power between employer and employes is not equal and where a substantial body of women workers are receiving less for their toil than called for by the standards of a decent human life. Again the states are told "thou shalt not" under the pietistic pretension that the sacred Constitution forbids it. A hopeful experiment vindicated by most formidable proof is arrested because the Supreme Court chooses to use the phrase "due process of law" in this fashion as the instrument of destruction.

The effects of this decision make the common argument in support of the judicial power under the due process clause, based on the numerically small number of statutes invalidated by the Supreme Court compared with the total number of cases that come before it, seem almost trifling. The decision which invalidates this law is not one case out of a thousand. It is the doom of a penetrating social policy. Not only minimum wage legislation is involved, important as that is to the lives of the least protected workers. Argumentatively this case will have, as it doubtless is intended to have, a restraining influence upon efforts at readjustment and amelioration among the forces in industry. The power thus exercised by the Supreme Court through the due process clause over the social legislation of the individual states is the most vulnerable aspect of "centralization" because it is at once the most destructive and the least responsible.

The Case of Anita Whitney

FOR five years the name of Anita Whitney has intermittently come to the front in news dispatches, as one phase after another of her case was passed, and her entrance into San Quentin Penitentiary approached. On October 19 the United States Supreme Court declined jurisdiction and the last avenue of escape has been closed. There remains nothing between Miss Whitney and a prison term except pardon by the Governor of California.

The case of Miss Whitney grew out of the legal terrorism practiced, under cover of the excitement of war and the fear of revolution, against workers who sought to improve their condition. The I. W. W., which had secured notable improvement in the status of labor in the Northwest and on the Pacific Coast, was especially the object of repressive measures. Special legislation was passed to outlaw the organization; members were imprisoned; and in some places, as at Tulsa and Centralia, mob violence was let loose against them with the connivance of the authorities. In California a criminal syndicalism act was passed according to which

Any person who . . . organizes or assists in organizing, or is or knowingly becomes a member of, any

organization, society, group or assemblage of persons organized or assembled to advocate, teach or aid and abet criminal syndicalism . . . is guilty of a felony and punishable by imprisonment in the state prison not less than one nor more than fourteen years.

The I. W. W. is held by California courts to be an organization advocating criminal syndicalism within the meaning of the act. There are at present seventy-two members serving sentences for the crime of merely belonging to the organization. Some of these men were arrested when they confessed membership in order to testify to the true nature and purposes of the I. W. W. at the trial of their fellows. Miss Whitney's membership in the organization came about through her interest in the effort to improve the condition of workers of which the I. W. W. was the most prominent representative on the Pacific Coast. It is absurd to imagine that she would have joined that organization or any other for the purpose of "commission of crime, sabotage, or unlawful methods of terrorism as a means of accomplishing a change in industrial ownership or control." Indeed Miss Whitney was known for her outspoken advocacy of political means of securing a change in the social order as opposed to revolutionary or direct action. Her trial on four other counts which charged personal participation in criminal practices failed of conviction. Her only crime was membership in a proscribed organization, a revival, as the American Civil Liberties Union points out, of the mediæval doctrine of guilt by association.

It is regrettable that the Supreme Court did not see its way clear to accepting jurisdiction in the case. As it is, the country will be spared the humiliating spectacle of a woman whose whole life has been devoted to the cause of her fellow men being punished by them for actions springing directly out of her self-devotion only if the Governor of California grants a pardon. To this end those who believe in a liberal interpretation of civil rights are asked to write to Governor Friend W. Richardson, asking for this action on the ground of humanity and public policy, and to engage the support of organizations and the press to this end.

THE NEW REPUBLIC

PUBLISHED WEEKLY AND COPYRIGHT, 1925, IN THE U. S., BY THE NEW REPUBLIC, INC., 421 WEST 21ST STREET, NEW YORK
HERBERT CROLY, PRESIDENT, ROBERT HALLOWELL, SECRETARY
AND PUBLISHER, DANIEL MEBANE, TREASURER

EDITORS

HERBERT CROLY BRUCE BLIVEN ROBERT LITTELL
ALVIN JOHNSON GEORGE SOULE STARK YOUNG
ROBERT MORSS LOVETT

CONTRIBUTING EDITORS

JANE ADDAMS JOHN DEWEY R. H. TAWNEY
DAVID FRIDAY H. N. BRAILSFORD LEO WOLMAN

RATES: SINGLE COPIES, FIFTEEN CENTS; YEARLY SUBSCRIPTION, FIVE DOLLARS; CANADIAN, FIVE DOLLARS AND FIFTY CENTS; FOREIGN, SIX DOLLARS; THREE MONTHS' TRIAL, ONE DOLLAR

Keep Your Desk Clear

THIS is the 22nd Annual National Business Show, "America's Efficiency Exposition." I am sorry I missed the other twenty-one.

In case the meaning of the word "efficiency" is not entirely clear to you, I shall tell a little story before we go inside the Sixty-ninth Regiment Armory. Once upon a time the President of our Corporation received a letter from a printing establishment in Pennsylvania. It was a perfectly adequate letter under the circumstances (which I have forgotten). It said that the printing establishment was, or was not, prepared to do so-and-so. But it was distinct from the average run of business letters in that there was no Dear Sir or Gentlemen or Dear Sir and Brother at the beginning, and no Yours Truly or We Remain or Awaiting Your Further Orders or Truly Yours at the end of it. Instead there was a single line of very fine type printed in red at the bottom of the page. As follows: CUSTOMARY SALUTATION OMITTED IN THE INTEREST OF EFFICIENCY.

To have repeated Dear Sir at the beginning of every letter and Yours Truly at the end of it would have cost that Pennsylvania printing concern four words per letter, four hundred words per hundred letters, two thousand words per day, 600,000 words per year, 10,000 minutes of one stenographer's time, or her salary for two months, or \$166.66. If we multiply this by the number of years the Business Show has been going, plus interest, plus depreciation, minus interest on depreciation, it comes to a whole lot of money. Now do you understand? Yes? Then let's go inside.

Under the vast vault of the armory over two hundred and fifty exhibitors have concentrated the last word in the greatest of all American wars. Here is every device, mechanical or psychological, miraculous, ingenious, unnecessary or ridiculous that can possibly shave off a little more time, space, waste or effort. Here is everything from the thousand dollar calculating machine which will solve every conceivable arithmetical problem, down to the fifty cent cigarette holder shaped like a snake (named "Cleo" after the well-known asp) and coiled so that the index finger inserted in the coil will keep the cigarette at a distance just sufficient to prevent the smoke from coming between the poker player's eyes and his four aces which the smoke, were it not for the index and the coil and the snake, would blur until they seemed to be only three aces. . . .

Never were so many rare and beautiful Americana gathered under one roof. They are rare, because most people never see them unless they are employed by some huge company with a million outgoing letters a day. They are beautiful with that smooth mysterious simplicity of polished metal

which no merely ornamental, no ordinarily useful object can ever achieve. These adding machines and tabulators and duplicators and fanfold form feeders and dictaphones and filing systems are the mirror of our America, and the best and handsomest and neatest of them deserve to be preserved in the wing of some museum, as exemplary of their age, no less than the andirons of 1776. The reflection of this America they give us is double. On one side, miraculous ingenuity, a compact, softly clicking machine which will perform mental feats impossible to the majority of human minds, machines which are themselves the cumulative product of sheer genius. On the other side, mere material substitutes for mind, crutches for memory, ticklers, calendars, reminders, classifiers which hint darkly that mind, in the high places of business, knowing itself about to soften and give way, is casting about for a mechanical successor. One kind of machine embodies the triumph of mind over matter; the other, exactly the reverse. One kind proves that some of the most ingenious and intelligent men in the world are right here in the next block, another kind insists that no human being ought to be allowed to perform any mental process that a machine will do as well. We have lost our belief in the horse-sense of mankind, and instead we want everything to be fool-proof, probably because we have begun to realize the real percentage of fools in the population. Certainly this exhibition is astonishingly rich in clever devices to prevent people from doing the simplest acts, whether they be the opening of an envelope or the remembering of a date for lunch. We now use more brains avoiding thought than we ever did thinking.

The floor is divided into aisles, where the big guns of business are demonstrated, the adding machines, typewriters, cash registers and filing systems. Perched around the gallery are the smaller fry—calculators, check-protectors, and self-closing inkstands. One of the exhibits we most looked forward to is, alas, missing, but the trade journal, Office Appliances, gives us hope of meeting it again: "We will exhibit a new line of cuspidors at booth 50, Grand Rapids Convention . . . brass, statuary bronze, olive green, mahogany and white enamel." But here, if you like white enamel, is something even better. On a raised stand is a lily-white desk, crowned by a snow-white typewriter. It revolves slowly, inexorably. No one is sitting at it. We take it to be an invention whereby the Chief Executive (or the Big Boy, as he is sometimes called) can survey all points of the office compass without using the muscles of his neck. Next door is a glorious fanfold form feeder, which supplies an endless stream of forms, anywhere up to eight, automatically sandwiched with carbon at the typewriter. Where seven

separate operations were once necessary, only one is now. One girl only is needed where three were required before. What has happened to the other two girls, we ask the salesman, but he is not interested—"Do you use much carbon?" from a persuasive voice, and we are shown a complicated and expensive machine to test the relative merits of little strips of carbon paper—Here the Puro-filter cries out "Have a drink with us," there they are selling Dr. Eliot's Five Foot Shelf—We pass a book of binders for all purposes, and the purpose that first meets the eye in large lettering is Hookworm Case Record—Now comes a package-sealing machine, which we would really like to buy. Evidently the makers are proud of it, for at the back of the booth, in a gold frame, against a purple plush background lit by invisible bulbs like a miniature stage set, is the Sealer, looking like one of the Golden Idols which Israel was told not to worship. This arrangement is popular, and farther on we see an even more elaborate use of it. The Interior Telephone is a small neat box with plugs and switches, to be used in inter-office communication. Its function is demonstrated by a huge board with five round holes. Each hole, again like a stage set, is beautifully illuminated, and features, upon the corner of a desk, an Interior Telephone. The Telephone in the middle is labelled President, and clustered about him are smaller telephones marked Vice-President, Treasurer, Sales and Traffic department. Each telephone connects with all the others, but no man is visible. Perhaps none is necessary.

In the good old days when men were men and not Vice-Presidents, the head of a business wanted few things. A desk, a couple of pencils, a telephone, an old cardboard letter file, a red-haired typist and her machine, and a handful of cigars. But times have changed.

The units of American business, the typewriter, the 'phone, the desk and the index card have subdivided and multiplied and evolved into an organism as horribly complicated as man. So that now, if you want your office to be 100 percent efficient, you need hundreds of dollars worth of expensive toys and delicate tools. Suppose that you are setting up a moderate sized factory, with records to keep, letters to receive and answer.

A hair-trigger fool-proof electric time-stamping clock to record the exact hour of the mail's arrival (this could be learned from the postman, but he is bound to be a few minutes out). For opening the mail, a lightning electric letter-opener, slicing the fraction of an inch off each envelope at the rate of 200 a minute. This will bring a large mail to the dictators about twenty minutes earlier than usual. Unfortunately there is no machine for reading mail. Next year, perhaps. In the meanwhile the mail is in the hands of the Dictators. They dictate answers into a nickel-plated dictaphone. The stenographer, seated in an Adco Posture Chair (The

Do More Health Chair), gets the voice from a wax roll by the aid of a transcribing machine. The wax rolls need a shaving machine, unfortunately not also adapted to human use. The typist uses a noiseless typewriter, which itself is enclosed in a sound proof cabinet, something like the casket of a very minute and valuable corpse, with a glass lid. If, as sometimes happens, she writes from a notebook, or copies from other type, she needs an Error-No Copy stand, which avoids craning of, and pains in, her neck. If she is sending out a lot of envelopes, she must have a Speed-o-Feeder, with electric motor, which whips envelopes in and out of her typewriter at the rate of 3000 a day. She ought not to be without the Carlton paper jogger, to keep the edges of sheets of paper together. From time to time she steps to the Puro-filter for just another little drink. If she is merely filling out orders, here comes the fanfold form feeder, with its seven carbons and eight copies, for yourself, the bookkeeper, shipping order, packing slip, statistical, posting medium, express, and follow up. Into the jungle of such beautiful, mysterious beasts as the calculators and adding machines we will not penetrate. But a quantity check writer is indispensable. So is a mimeograph machine, or a multigraph, or a personal letter writing machine, or at least a one-motion simplicator-duplicator. And of course a Kalamazoo loose leaf binder. As for index-card and filing systems, we will give no advice. There is every kind imaginable to choose from, and they are all the best. The cards can be arranged either to flap, like wings, or to jump up one by one at the push of a plunger, or to get lost in mere alphabetical order. On the whole, a machine that lost a certain number of cards per hour would in the end save time and trouble.

All of the above would come to nearer three than two thousand dollars. Expensive? Yes, but efficient. And the expense ought not to stop here. Consider your telephone. Its naked outlines are appalling. So much can be done with it. You can attach it to or swing it away from your desk in a dozen attractive ways. You can muzzle it at least twice, you can put a stethoscope in your ear, you can soften the impact of the cold rubber receiver against your ear with an Enjoyophone, you can check up on the Telephone Company with a Talliphone, you can buy automatic bookholders and notetakers, you can even buy a Weilaphone, which "directs the sounds you want to hear into both ears at once just as nature intended." Now add up.

Talliphone	\$ 7.50
Hush-a-phone	10.00
Double-Desk Equipoise extension bracket ..	8.50
Book-holder and note-jotter	7.00
Hold-no-phone	.50
Weilaphone	5.00
Enjoyophone	.50
	\$48.50

Now let me suggest a few things for your desk. Your desk is the most important part of your business. It is the brain cell, whether you are there or not. If your desk is inefficient, you might as well be out at the ball park, but a well-appointed desk works all by itself, even if you are at the ball park. Papers lie on it, and are taken away. Papers repose in the proper corner, wire basket or cubby-hole, and are taken away, or left, or removed to another wire basket. All this is work. The whole purpose of your work is to keep your desk clear. For this I cannot too highly recommend the Kleradesk. The Kleradesk is a system of sectionalized upright metal compartments, in three finishes to imitate wood. The salesman showed me a photograph of an ordinary desk, littered with papers, letters, telegrams, powers of attorney, blank checks, negotiable bonds, unsigned contracts, unread reports, what not. Then he showed me a happier picture. The desk was clear and all the papers were in their proper compartments. The work was well done. The unanswered letters were in the compartment marked Unanswered, the bonds were marked Bonds, etc. There was nobody sitting at either desk, but the difference in efficiency was ob-

viously enormous. That Kleradesk desk is marked for advancement. Some day it will be the President of a great Corporation—always provided it does not neglect to furnish itself with No-over-Flo sponge cups (opal), \$1.25, and an Emeraline Double desk set, "something real swell for Executives' offices," \$27.

The desk at which I am now sitting is not doing much work. Its owner is away, though that in itself is no reason for its idleness. In his absence the desk, far from clear, shelters a hat, a cigar, five stacks of miscellaneous papers and one pen, of the variety made popular by post-offices. In one drawer of the desk I find old letters (which should be on file) and pipe-cleaners (which ought to be listed under both p and c). In another drawer is a bulletin of the New York Section of the Green Mountain Club, a single sheet of note-paper and some very valuable dust. In the bottom drawer is a trunk-strap and a bottle of champagne.

But then the owner of the desk has no reason to equip and educate his desk, or take it into partnership as would a Big Executive. For the owner of this desk is only a brain-worker.

ROBERT LITTELL.

Soviet Russia—II

WE shall not understand Leninism unless we view it as being at the same time a persecuting and missionary religion and an experimental economic technique. Last week I wrote some confused reflections on the religious side. I turn now to the second question—is the economic technique so inefficient as to court disaster?

The economic system of Soviet Russia has undergone and is undergoing such rapid changes that it is impossible to obtain a precise and accurate account of it. The method of trial-and-error is unreservedly employed. No one has ever been more frankly experimentalist than Lenin was in everything which did not touch the central truths of his Faith. At first there was much confusion as to what was essential and what not. For example, the doctrine held at the outset that money must be abolished for most purposes is now seen to be erroneous, there being nothing inconsistent with the essence of Communism in continuing to use money as an instrument of distribution and calculation. The government has also come round to the view that it is wiser to combine a policy of limited toleration with intermittent teasing and harrying towards (for example) the old intelligentsia who have stuck to their country, towards private traders, and even towards foreign capitalists, rather than to attempt to crush out these elements altogether—trusting on the one hand to the complete control of the educational machine and the upbringing of the young, and on the other hand to the gradual improvement of the technique

of State trading and to the growth of State capital, to dispense with these pagan auxiliaries in course of time. Thus almost all the members of the non-Communist intelligentsia with pre-war educations are now in the service of the government, often in important and responsible posts with relatively high salaries; private trade is again lawful though precarious and difficult; and foreign capitalists, who grant short-period trade credits against government imports into Russia, can reckon for the present with some certainty, in my opinion, that they will see their money back in due course. The fluctuating pursuits of these expediences make it almost impossible to generalize about anything in Soviet Russia. Almost everything one can say about the country is true and false at the same time—which is the reason why friendly and hostile critics can in good faith produce different pictures of the same thing.

A further difficulty in estimating the efficiency of the economic system is caused by the hard material conditions attending its earlier years which would have tried severely any economic system. The material losses and disorganization of the Great War were followed by those of a succession of civil wars, by outlawry from the rest of the world, and by several bad harvests. The bad harvests were partly due to bad management as well as to bad luck. Nevertheless the Soviet experimentalists can fairly claim, I think, that at least five years of peace and fair weather must elapse before they can be judged merely by results.

If one is to make any generalization in present conditions, it must be this—that at a low level of efficiency the system does function and possesses elements of permanence. I estimate the truth about the economic condition of Russia in its present phase to be roughly as follows.

Russia is now a country of about 140,000,000 inhabitants, of whom six-sevenths are rural and agricultural in their life and one-seventh is urban and industrial. The urban and industrial population, which is what the casual visitor sees, is not self-supporting—it lives, that is to say, at a standard of life which is higher than its output justifies. This excess expenditure on the part of the town population is covered by the exploitation of the peasant, which is only practicable because the town population is a numerically small proportion of the whole country. Thus the Communist government is able to pamper (comparatively speaking) the proletarian worker, who is of course its especial care, by exploiting the peasant; whilst the peasant, in spite of this exploitation, desires no change of government, because he has been given his land. In this way a certain equilibrium has been established both in the economic sphere and in the political, which gives the Soviet government a breathing space in which to try its hand at a serious economic reorganization.

The official method of exploiting the peasants is not so much by taxation—though the land tax is an important item in the budget—as by price policy. The monopoly of import and export trade and the virtual control of industrial output enable the authorities to maintain relative prices at levels highly disadvantageous to the peasant. They buy his wheat from him much below the world price, and they sell to him textile and other manufactured goods appreciably above the world price, the difference providing a fund out of which can be financed their high overhead costs and the general inefficiency of manufacture and distribution. The monopoly of import and export trade, by permitting a divorce between the internal and external price-levels, can be operated in such a way as to maintain the parity of foreign exchange in spite of a depreciation in the purchasing power of the money. The real value of the rouble inside Russia is, admittedly, much depreciated compared with its external value as measured by the current exchange.

These devices, though effective for their purpose at present, and perhaps inevitable for a time, involve two disastrous factors of inefficiency. The low value of agricultural products in terms of industrial products is a serious deterrent to the output of the former, which is the real wealth of the country. The fundamental problem of the Soviet government is to get itself into a sufficiently strong financial position to be able to pay the peasant more nearly the real value of his produce—which would surely have the effect of giving him both the means and the incentive to a far higher output. Mean-

while the pampering of the proletarian workers of the towns, whose real incomes are something like double those of the peasants and, allowing for everything, are not far short of their pre-war level, renders town life far too attractive in comparison with country life. The stimulus to migration from the country to the town is much greater than is justified by the power of industry, with its impaired equipment and deficiency of working capital, to absorb new workers. Nothing would stop the migration if it were not for the housing difficulties and the lack of employment now offering in the towns—a peasant arriving at Moscow is notified at the station that he can find neither work nor lodging. But these deterrents are only effective after the towns have become overcrowded and unemployment has reached unheard-of proportions. For two years unemployment has been severe and increasing, and I believe that by now from 20 to 25 percent of the industrial workers of Russia are unemployed—say 1,500,000 men out of a total of 6,000,000. These men receive from their trade a dole representing half-pay, which, even so, is equal to the working income of the poorer peasants, with the result that this vast army of unemployed drains away a substantial part of the financial resources of the State establishments. This condition of affairs serves but to enforce a lesson of bourgeois economics as being equally applicable in a Communist State, namely, that it impairs wealth to interfere with the normal levels of relative prices or with the normal levels of relative wages so as to make some occupations unduly attractive as compared with others. But it also teaches that similar evils can arise in totally different conditions from totally different causes; for the Russian problem of relative wages and relative prices out-of-gear is partly the same as ours.

The result is that the real income of the Russian peasant is not much more than half what it used to be, whilst the Russian industrial worker suffers overcrowding and unemployment as never before. Nevertheless there is, beyond doubt, a certain measure of political and economic stability. The Soviet State is *not* so inefficient as to be unable to survive. It has lived through much worse times than the present. It has established an organization, covering all the activities of economic life, which is inefficient on normal standards, but which has been evolved out of chaos and the void, yet does exist and function. It has set up a standard of life, which is low compared with ours, but which has been evolved out of starvation and death, yet does provide some comforts. Everyone agrees that the improvement in the last year is enormous. This year's harvest is tolerably good. Conditions are manifestly on the up-grade. Some of the grandiose schemes of the new régime are beginning to take actual shape. Leningrad will soon be supplied with power and light from one of the largest and most modern generating stations in the world. The plant-breeding establishments, which are to supply

the peasant with better seeds on the latest Mendelian lines, are extensive and well equipped.

After a long debate with Zinovieff, two Communist ironies who attended him stepped forward to speak to me a last word with the full faith of fanaticism in their eyes. "We make you a prophecy," they said. "Ten years hence the level of life in Russia will be higher than it was before the War, and in the rest of Europe it will be lower than it was before the War." Having regard to the natural wealth of Russia and to the inefficiency of the old régime, having regard also to the problems of Western Europe and our apparent inability to handle them, can we feel confident that the comrades will not prove right?

J. M. KEYNES.

The General Election in Canada

TWIXT the Gulf of Mexico and the Arctic Circle there exist two political societies enjoying different forms of government, but there must be something in the atmosphere of North America which puts a common stamp upon their politics. On the 29th of October Canada will elect her fifteenth Federal Parliament and her citizens in casting their ballots will face a dilemma which has often confronted their brethren in the United States. On the one hand there is the Conservative party, beloved of the socially elect, firmly protectionist and enjoying the support of most of the "big business" interests of the country, an almost complete parallel to the Republican party in the United States; on the other stands the Liberal party, rich in traditions of long struggles for political and economic freedom, but now doomed to sterility through feeble leadership and the control exercised in its councils by a sectional French-Canadian bloc which votes in terms of prejudice rather than of principles, in short, a close analogy to the Democratic party in the United States. After the War there was a hope that sincerely progressive voters might be provided with a comfortable political home in the new Progressive party founded in 1919 by varied elements who were convinced of the futility of the two historic parties. It made a most creditable beginning with the capture of one-fourth of the seats in the Federal House at its first election, but it flattered only to deceive. When its leaders, lacking political courage, or compromised by pre-election bargains with the Liberals, declined to accept the rôle of official opposition to which, as the second largest group, they had claim, and to force to the front issues which would soon have yoked the two old parties in an uneasy alliance and given them the field as the only honest exponents of reform, its power began at once to wane, and when its agrarian members succumbed to a spirit of class-antagonism and made no effort to find a basis for continued co-operation with other groups, its future as a nation-

wide party was sealed. Today some of its ablest leaders have abandoned political for industrial action, most of its parliamentary representatives in eastern Canada have become servile campfollowers of the Liberal party and only in the limited area of the three prairie provinces are the Progressives in serious competition with the older organizations. Outside this area there are a few constituencies where an independent voter will have an opportunity of supporting an able Progressive like Mr. Drury, the ex-Premier of Ontario, but elsewhere he will be compelled to give a grudging vote to a candidate of one of the two older parties and solace himself with the hope that throughout the coming years the left wing of the party of his choice may prevail.

The Countess of Oxford and Asquith, a lady not unversed in politics, records in her latest book, *Persons and Places*, her sorrowful conviction after a personal visit to Canada in 1923, that Mr. MacKenzie King, who has been in power as the head of a Liberal government since 1921, would be sorely tried to hold his own against the forces which would be arrayed against him. Events today are justifying her shrewd forecast, for Mr. King and his party are committed to a difficult defensive battle all along the line. In four years they have done singularly little to merit a renewal of the country's confidence and much to deserve condign punishment. They make their chief appeal for support on the ground that they have been following a middle path between two parties of extremists whose policies, if translated into legislation, would shatter the fabric of Confederation, and it is true that they find themselves attacked by Conservatives in the East for ruining Canadian industry by untimely tariff reductions and in the West by the Progressives for timorous capitulation to the protectionist interests.

The trivial parings of the tariff, in which the Liberals have indulged, represent a very feeble fulfilment of the decidedly radical pledges of the Liberal platform, and justify the Progressives' contention that in fiscal practice there is only a fine shade of difference between the two old parties. But an indictment embodying many graver counts than its fiscal derelictions can be framed against the King government. The recent abuse of the power of the Railway Commission for the purpose of gaining votes for Liberal candidates in British Columbia, the lavish expenditure of federal funds to bribe doubtful constituencies with public works and the steady and semi-successful efforts to restore the "spoils" system in the Civil Service, which had been finally wiped out during the war years, are only some samples of a series of administrative crimes which tend to lower the political morality of the whole country. Public spirited citizens who have no partisan enthusiasms, must recoil from a party whose leader promises to complete at a cost of many millions a railway to Hudson's Bay of very dubious economic value provided the West returns a sufficient number of Liberal members to guarantee his reten-

tion of power, and whose chief captain in the maritime provinces assails the Civil Service Commission as the negation of responsible government. Such episodes lend point to the old gibe that Canadian Conservatives are always true to bad principles and Canadian Liberals always false to good ones.

The Conservatives seem to feel that the sins of the Liberals are almost sufficient material for an opposition platform. Like all opposition parties, they make glowing pledges of drastic economies which will permit a balancing of the federal budget and a reduction of taxation, but they are bending their main efforts to make the election turn upon the fiscal issue, and their leader, Mr. Meighen, is arguing that the higher scale of duties which he promises to establish, will halt, by creating a larger volume of domestic employment, the southward exodus to the United States and permit the satisfactory absorption of more immigrants. The Fordney tariff has created in Canada an atmosphere favorable for such a protectionist appeal, but on the other hand the extensive penetration of American capital into Canadian industry has partially destroyed the old association of patriotism with local protectionism and notoriously many manufacturing establishments which are now subsidiaries of American corporations, are averse to any tariff changes which might enhance the price of their raw materials. Many Conservatives would like to see their party propound bold constructive policies for political and economic coöperation with the other units of the British Commonwealth, but the necessity of placating Quebec forbids any discussion of them.

Upon general international issues there has been a conspiracy of silence, but Canada's relations with the United States are, as usual, playing some part in the campaign. The Conservatives are insisting that unless the wall of the Fordney tariff is countered brick for brick, the southward exodus of population will continue and will eventually make impossible the survival of the Dominion as a separate political entity. The Liberals and, more emphatically, the Progressives, retort that nothing could restore the economic health of Canada so quickly as close commercial relations with the richest country in the world, and that their consummation must become a distant dream if a party pledged to high protectionism reigns at Ottawa.

The Progressives are restricting their activities largely to the prairie provinces where they are standing firm on their radical program designated the New National Policy. They advocate as near an approach to free trade as the revenue necessities of the country will permit, the encouragement of the coöperative idea, an elective Senate and the public ownership of all railways. Their campaign is hampered by inadequate press support, but rural coöperative bodies give them a ready-made organization in many areas, and the strong sectional feeling now prevalent in the West against the economic dominance of the East will tell in favor of their

candidates. The Labor party will nominate candidates in a few urban seats, but being torn by internal dissensions, is playing an insignificant part. A project for the amalgamation of the two great railway systems simmers in the background, but as the threat of such a merger, involving as it would a diminution of railway employment, would frighten the powerful railway vote, no party, save the Progressives, dares to sponsor it openly.

Under the circumstances voters who are honest disciples of the protectionist creed are now showing a disposition to prefer a party which makes no concealment of its protectionist faith, and voters who believe that there can be no health in a nation's body unless some elementary standards of political morality are maintained and that the restoration of the "spoils" system would be a deplorable calamity, see no danger in punishing the Liberal party for a varied list of delinquencies. Accordingly the prospects of the Conservative party ought to be exceedingly bright, but they are impaired by one awkward contretemps. Mr. Meighen, the Conservative leader, seemed to be counteracting the handicap which his unpopularity for his part in certain wartime controversies had created for him in French-Canada when he induced an able French-Canadian politician, Mr. E. L. Patenaude, of Montreal, who established a claim to the gratitude of his compatriots by resigning from the Borden government in 1917 over the conscription issue, to lead the Conservative forces in Quebec. But it now transpires that an influential group of Conservative "diehards" in Montreal, who suspect Mr. Meighen of unseemly radical tendencies, have contrived to place their own bridle upon Mr. Patenaude. He has declared that he is as independent of Mr. Meighen as of Mr. King, the nominees of Conservative conventions in Quebec are being styled "Patenaude" candidates, and the opposition campaign in Quebec is being kept in a separate compartment from the general line of battle. Conservatives who favor the leadership of Mr. Meighen as their party's greatest asset, are not satisfied with the explanation that such tactics are pursued in order to obviate the necessity of defending Mr. Meighen's wartime record, and scent a scheme for the election of a Quebec group which might be in a position to veto Mr. Meighen's return to the Premiership.

The uncertainty of the Quebec situation is further aggravated by the sudden and dramatic return of Henri Bourassa to active political life after an absence of eighteen years. The international fame once enjoyed by Bourassa, the resolute opponent of Canadian participation in the Boer War and the founder of the Nationalist party which played a large part in compassing the downfall of Laurier and the defeat of the Taft-Fielding Reciprocity Treaty, may have faded, but he is still in the prime of his powers at the age of 57 and his arresting personality, reinforced by his dual gifts as a writer and speaker, and his wide knowledge of international

problems give him an intellectual equipment unmatched today at Ottawa and probably at Washington. He is contesting his old constituency of Labelle as a simon-pure independent who, by his own account, has lost all trace of partisan feeling and is ready to coöperate with public spirited and thoughtful men of all parties for a truly national policy. For Mr. King and the Liberals he has a good humored contempt, but for Mr. Meighen he has a definite aversion on account of his Imperialist proclivities; once more he proclaims himself an impenitent anti-Imperialist, opposed to participation in Imperial wars, armaments and diplomacy and he inveighs simultaneously against the dangers of the penetration of American influences, moral, political and economic. He is not attempting to revive the Nationalist party which decayed long ago, but he has always commanded an audience not confined to his own race, and his speeches and writings may exercise an important influence upon the election. The general result, therefore, of recent developments in Quebec, admittedly the crucial terrain of the contest, is that estimates of Conservative gains in that province are being modified and hopes of a clear Conservative majority are receding.

Political prophecy is a dangerous art, but the present indications are that the Conservatives will make very substantial gains in eastern Canada, yet not sufficient to offer them prospects of stable power. The Liberals will in that event return helplessly dependent on the Progressives who, while doomed to lose most of their eastern seats, will return a strong bloc of western members; the Progressive leaders will then have another opportunity, by raising issues which will split the Liberal party in twain, to terminate the existing artificial and unhealthy situation, and to compel a re-alignment of political forces which will give clear avenues of expression to conservative and liberal opinion, and restore equilibrium in Canadian politics. J. A. STEVENSON.

Late Autumn, Early Winter

Late autumn, early winter . . . Down the mothless
Evening I fear the flick of ghostly wings
Through that faint falling silver where the deathless
Tide of the dead moon swings.

I fear the sleepers in the desolate garden—
Purple and gold and blue—How shall they cease
Their thoughts of flame? Would they not cast the burden
Of brittle winter peace,

The little cold, the doom so light to sever—
Burst in a blaze of color through the shell
Of winter witchery till sleep gives over
The shattered sullen spell?

Late autumn, early winter . . . I fear this glimmer
Of creeping frost, this delicate half-death.
Beneath it all the savage fires of summer
Live without breath.

MARJORIE MEEKER.

James Joyce as a Poet

MR. R. C. TREVELYAN, the author of an interesting little book called *Thamyras, or Is There a Future for Poetry?* in the *Today and Tomorrow Series*, seems troubled by the lack of seriousness and ambition in contemporary English poetry. His discussion of the future possibilities of comic, philosophic, satiric, didactic and narrative poetry only serves to call attention to the fact that there is nobody of any importance attempting any of them. Mr. Masefield's long narrative poems have fallen progressively further below the success of *The Everlasting Mercy*; and Mr. Yeats, without doubt a great poet, has seldom passed beyond his personal lyrics, to write anything but short plays which still remain lyric rather than dramatic. It might, however, be worth while, in connection with the apparently rather discouraging condition of English poetry, to consider a prose writer who is perhaps as closely related to the poets as to the writers of prose fiction.

Mr. James Joyce, whose first book was a volume of lyrics, has from the beginning shown himself possessed of some of the peculiar genius of the poet at the same time that he has evidently lacked some of the gifts of the novelist. This appears very plainly in his language: few novelists have brought the language of prose fiction so close to the language of verse—"her long fair hair was girlish: and girlish, and touched with the wonder of mortal beauty, her face." "Kind air defined the coigns of houses in Kildare street. No birds. Frail from the housetops two plumes of smoke ascended, pluming, and in a flaw of softness softly were blown." But it is not merely in his language but in the whole effect at which he aims that Mr. Joyce is akin to the poets as much as to the novelists. Perhaps the most remarkable and characteristic of the pieces in his first book of fiction, *Dubliners*, is the long story called *The Dead*, which, however, performs none of the functions which we ordinarily expect of a story: it is scarcely an anecdote and not even a character study; if it represents a situation, it is a situation which does not come to anything. It is simply an exquisite and complex presentation of the sensations of a single person on a particular evening; and it thus sets the type of everything that Joyce is afterwards to do. *A Portrait of the Artist as a Young Man* is merely a succession of such presentations; and *Ulysses* the same thing again on a larger scale and with a greater degree of complexity. Less than any other novelist is Joyce interested in staging a drama or telling a story. When he has put before us a particular nexus of thoughts, emotions, perceptions and sensations as they are found in combination at a particular moment, he is satisfied. All his sweep is in the areas of society and of the human consciousness which he makes these moments imply. *Ulysses*, vast as it is, has no action and scarcely any movement: it ends with the characters' falling asleep, as they do at the end of *The Dead*, after a day which, like most of the days which we know, takes no definite new direction from its predecessors. The parallel with the *Odyssey* does duty for a story and serves Joyce as a device for indicating the significance and relations of his characters, which his rigorously objective method makes it impossible for him to explain in his own person and which, as they do not realize them, they cannot of course reveal themselves.

Ulysses, therefore, has this in common with some of the greatest of long poems: that, though the effect is cumulative and the parts necessary to each other, we read it as a series of episodes rather than a story which carries us straight through. We appreciate it best indeed when we have already

read it once and have found out what it is about, and return to it from time to time to read the sections separately. It is only then that we are able properly to realize what a satisfactory artistic unit each episode makes in itself and at the same time what it contributes to the whole. For this reason *Ulysses* has perhaps been more readily understood by people who are used to reading poetry, that is, poetry on the great scale, than by people who read principally novels. The latter became bored and eventually baffled when they discovered they could not get through it in an evening, like a novel by Mr. Joseph Hergesheimer, or even in a week—though they would certainly never have tried the same thing with the *Aeneid* or the *Divine Comedy*, or even with *Leaves of Grass* or *The Ring and the Book*.

And there is a further particular reason why *Ulysses* is more likely to be understood by the reader of poetry than by the reader of fiction. Mr. Joyce has been preoccupied with a problem to which Virgil and Dante most anxiously applied themselves and which has obviously been one of the principal concerns of poets in all civilized ages but to which novelists, with the exception of Flaubert, have not paid very much attention—the problem of varying the style to fit the subject. The kind of definitive propriety, intensity and economy of language which the great poets have attained and which Flaubert and Joyce aim at, has indeed remained so alien to the novel that many readers, accustomed to prose fiction, have not hesitated to declare *Ulysses* unintelligible—though its language departs nowhere more widely, I believe, from the language of ordinary prose than the language of much familiar poetry does. But one of the things which makes *Ulysses* formidable not merely to the modern novel but to the whole achievement of prose fiction is precisely its spectacular reintroduction of this problem and its appeal to standards which we long ago formed the habit of forgetting with the epic and dramatic poets who first set them—and whose race, like Mr. Trevelyan, we have come gradually no longer to count on.

For it may be said of novels in general that they have usually been written throughout in the same sort of prose—if a novelist has a literary sense sufficiently highly developed to vary his sentences from long to short in a passage presenting rapid action as distinguished from a passage of static description, we may consider ourselves very lucky; if he gets to the point of a little onomatopoeia, we are astonished by his brilliance. Henry James did not concern himself with these matters; neither did Thomas Hardy; neither did Thackeray nor Jane Austen nor Fielding. Take the description of the concert from Sinister Street, a typical English modern novel, by no means badly written: "It seemed to go on for ever in a most barbaric and amorphous din; with corybantic crashings, with brazen fanfares and stinging cymbals it flung itself against the audience, while the wood-wind howled and the violins were harsh as cats. Michael brooded unreceptive; he had a sense of monstrous loneliness; he could think of nothing. The noise overpowered his beating heart, and he began to count absurdly, while he bit his nails or shivered in alternations of fire and snow . . . Near him were lovers who in this symphony were fast imparadised; their hands were interlaced; visibly they swayed nearer to each other on the waves of melody. Old men were near him, solitary old men, listening, listening . . . At one point the bassoons became very active, and he was somehow reminded of Mr. Neech. He was puzzled for a while to account for this association of an old form-master with the noise of bassoons. *For he heard the loud bassoon.* Out of the past came the vision of old Neech, etc." Compare this with the episode in *Ulysses* in which

Bloom listens to the song in the bar. Here Mr. Joyce tries to put directly and precisely before us the music, the talk in the bar and the sounds coming in from the street as they appear to the dreaming relaxation of the late afternoon. "A duodene of birdnotes chirruped bright treble answer under sensitive hands. Brightly the keys, all twinkling, linked, all harpsichording, called to a voice to sing the strain of dewy morn, of youth, of love's leavetaking, life's, love's morn." Bloom watches the barmaids as they respond to the singing of the pathetic ballad: "Thrill now. Pity they feel. To wipe away a tear for martyrs. For all things dying, want to, dying to, die. For that all things born. Poor Mrs. Purefoy. Hope she's over. Because their wombs—A liquid of womb of woman eyeball gazed under a fence of lashes, calmly, hearing. See real beauty of the eye when she not speaks. On yonder river. At each slow satiny heaving bosom's wave (her heaving embon) red rose rose slowly, sank red rose. Heartbeats her breath: breath that is life. And all the tiny tiny fernfoils trembled of maidenhair."

The poetic genius of Mr. Joyce appears particularly plainly in a part of the opening of his new novel which has been published in a French magazine, *Le Navire d'Argent*. This book is to begin, I am told, with a description of the river Liffey chattering over its stones—which are presently heard to speak with the voices of gossiping washwomen: they are babbling an indistinct rigmarole story, half unearthly, half vulgarly human, of some semi-legendary heroine; and Joyce's rendering of the voices of the river, light, rapid, half metrical but always changing, now running monotonously on one note, now for a moment syncopated, but bickering interminably on, is surely one of his most remarkable successes: "O tell me all about Anna Livia! I want to hear about Anna Livia. Well, you know Anna Livia? Yes, of course, we all know Anna Livia. Tell me all. Tell me now. You'll die when you hear . . . Tell me, tell me, how could she cam through all her fellows, the daredevil? Linking one and knocking the next and polling in and petering out and clyding by in the eastway. Who was the first that ever burst? Someone it was, whoever you are. Tinker, tailor, soldier, sailor, Paul Pry or polishman. That's the thing I always want to know. She can't put her hand on him for the moment. It's a long long way, walking weary! Such a long way backwards to row! She says herself she hardly knows who her graveller was or what he did or how young she played or when or where or how often he jumped her. She was just a young thin pale soft shy slim slip of a thing then, sauntering, and he was a heavy trudging lurching lie-abroad of a Curraghman, making his hay for the sun to shine on, as tough as the oaktrees (peats be with them!) used to rustle that time down by the dykes of killing Kildare, that forestfellfoss with a plash across her. She thought she'd sink under the ground with shame when he gave her the tiger's eye!"—As darkness falls, the voices seem to grow husky and vague: "Can't hear with the waters of. The chittering waters of. Flittering bats, fieldmice bawk talk. Ho! Are you not gone ahome? What Tom Malone? Can't hear with bawk of bats, all the liffeying waters of. Ho, talk save us! My toos won't moos. I feel as old as yonder elm. A tale told of Shaun or Shem? All Livia's daughtersons. Dark hawks hear us. Night! Night! My ho head halls. I feel as heavy as yonder stone. Tell me of John or Shaun? Who were Shem and Shaun the living sons or daughters of? Night now! Tell me, tell me, tell me, elm! Night night! Tel me tale of stem or stone. Beside the rivering waters of, hitherandthithering waters of. Night!"

EDMUND WILSON.

Craig's Wife

Craig's Wife, by George Kelly, Morosco Theatre, October 12, 1925.

MR. GEORGE KELLY'S *Show-Off* was perhaps the best American comedy so far, comedy of American life, popular rather than the traditional comedy of manners or native burlesque or farce. It had breeze, ugliness and heart. There was something about the events of that play, about its milieu and its characters, that managed to provide an image for ideas very significant and applicable to the American state of things, the American goodness, the American head. It was well observed, kindly recorded, heard and seen sharply, and directed for the stage with a remarkable ear and a theatrical instinct that never slipped.

In Mr. Kelly's tragedy these same qualities appear. In a problem much more difficult than that of *The Show-Off*, we get the same arresting dialogue and, especially, the same diction, the quick ear catching people's speech and turning it into theatre; and we get the same expert stage directing, that timing of the speeches and thought cues that in itself can fill them with life and turn the sheer beat and tempo of them into thought and action. You sit through much of *Craig's Wife* quite spellbound, gripped by the reality of the characters and at the same moment delighted by the manifest craft of their presentation.

Mrs. Craig is away at her sister's bedside. The housekeeper and maid dust about and let us know that she is very hard to please, pays well, wants everything exactly so. Mrs. Craig comes, bringing her niece from Smith College or engaged at least to a Smith College Professor of Romance Languages. Mrs. Craig has persuaded the girl to leave her mother's bedside for a rest, she sees no more reason than usual for believing that the sick woman will die just now. She discusses marriage with the niece, sets forth her own point of view, her taking it as a contract, her intention to secure herself in this house and this marriage, her realization that her husband is incurably romantic. Mrs. Frazier, a widow next door, has sent in roses to the aunt, who lives with the Craigs; she is in fact upstairs now on a visit to the aunt. Craig arrives, delighted at his wife's unlooked-for return. There is a row about Mrs. Frazier's getting into the family circle, and in the course of this you perceive that Mrs. Craig from the very outset has been freezing off her husband's friends, tightening her own position. In his wife's absence Craig has been at the Parri-more's playing cards the night before. A call has been left for Craig, the housekeeper has given it to Mrs. Craig, who has tried to find out from the operator what name answers to that number.

There are scenes then between Craig's aunt and the wife and then between the wife and the husband. The Parri-mores have been found dead, the papers and the police are busying themselves. The police call, on the trail of the telephone message which has been sent from this house and which turns out to be the Parrimores' number. There are more rows, Craig's wife appears in her true light, her egotism, her policy of entrenchment for herself and for his subordination, her contemptuous opinion of him as a romantic fool. Craig, the aunt, the servants, the niece all leave; the wife, with a telegram of her sister's death in her hand, remains alone in this house of hers.

It is too intricate a story to record properly, but in the outline of it we can see the play's theme. A wife, a husband, the give and take, the relation of two people to each other's lives, their single and mutual souls, the home they

make. For a time it all goes well. Miss Mary Gildea, Miss Josephine Williams, Miss Ann Sutherland, Miss Josephine Hull, as the maid and housekeeper and aunt and neighbor, give performances that are both accurate and exhilarating, both true and theatrical; Mr. Charles Trowbridge will pass as the husband, though there are already threats of dulness and unction now and then; Miss Eleanor Mish can be said at least to reproduce what might, bad English and all, be the niece, though not necessarily so; Miss Crystal Herne plays Craig's wife brilliantly, never too much, never obviously, to its utmost intellectual and emotional values. It all goes well till near the end of the second act, when the staginess grows more patent, the too tried tricks of the playwright get a little thicker. When that second curtain falls on Craig making sententious speeches in the earlier manner of Ibsen, symbolism, cant, poor taste and all, we are less enthusiastic about Mr. Kelly's achievement. In the last act the trouble reappears when Craig tries to explain himself and the author's thesis. By this time Mr. Kelly and Mr. Trowbridge have jellied into that solemn and smug self-consciousness that Anglo-Saxons are apt to exhibit when they try to present in a natural manner their high thoughts and moral explanations. Plainly this Craig of theirs is something of an ass, but neither the actor nor the dramatist seems to know it.

This part of the play can sum up the trouble and show us what is the matter, what prevents *Craig's Wife* from being even better than it is. It is the most entertaining dramatic writing of the season. It is a remarkable play as it stands; a very significant play it might become if it were thought through.

Every one knows that the greatness of a dramatic work derives partly from its power to give us the sense of the individual created within the type and at the same time the type implied in the individual. Mr. Kelly in some of his hero's speeches explicitly bids for a wide American application of his play; we are to take the characters and the situation as all too often representative of the American scene. But in this respect of significance the case of Mr. Kelly's play, so far as the sum of its ideas and its conclusion go, is not so bright. What happens is that he has looked at one of his two main characters with seeing eyes fixed on life, he has seen the other with stage eyes. He would know more about his man if he studied Sherwood Anderson's new novel. In *Dark Laughter* there is an American husband, as fine a fellow as you would care to meet, industrious, strong in the community, successful, pleasantly affectionate, optimistic, progressive and eugenic. But he will look nothing squarely in the face; he has his taboos outside and inside, there are things a man does not do and things a man does not think; he has no intention of hurting his chances by risking the depths and heights of living; he is adolescent and competitive, puerile, timid and naive; much of his existence moves in the realms of energy, boredom and platitude; the fruits of these and of a kindly heart are what he can give to a woman, and if she will not ask out of him any more than these she can buy anything she wants. What if the good Craig should prove to be a little like that?

In *Craig's Wife* the portrait of the woman is remarkable. She is explored precisely and finally, given her variety and multitude of reactions, her harshness, pathos, egotism, intelligence. But the man remains merely stage stuff. He is left to us as a simple, noble, self-respecting fellow, an ornament to any community and deserver of the best of wives, whatever that may mean. The trenchant study brought to bear on the wife stops short, then, at the hero.

It may be a good popular method, since it simplifies to play to a fine strong grapple of the good and bad, martyr and villainess, and everything is resolved to our moral satisfaction. On that basis, however, with the husband so elementally motivated, there is no obligation to heed the subtleties of the wife's case; and the piece remains a most engaging play of great talent, but in ideal significance the work of a dramatist only half way escaped as yet from the common-mindedness of the popular theatre.

STARK YOUNG.

Washington Notes

I REGRET to report that I was some weeks ago very much too optimistic over the effectiveness of the new Prohibition Enforcement régime under General Lincoln C. Andrews. The strength and personality of the man, his record and antecedents, his complete sincerity of purpose inspired me with the belief that he really could get away with it. I felt that if it were humanly possible he would be able to keep politics out of and put teeth into the Enforcement force.

Well, he did his best, but he has certainly failed. The Senatorial attack was infinitely more ferocious and the Presidential support and backing very much more feeble than he had counted upon. That is the trouble with Presidential support in this administration. Even when so sound and right that the sentiment is overwhelmingly with it, it is never militant in the face of political opposition and can be pushed back if you push hard enough.

The pushing this time was so hard and fast and determined that the Presidential backing of the General got so far back that he could not see it with a spyglass. It was pushed back by some of the strongest and best political pushers of this or any other land, men who have pushed their way into the Senate, pushed their way up in the Senate, and who never stop pushing from one year's end to the other.

By the time they got through pushing Mr. Andrews around, his new organization was almost as full of politics as the old one of the Hon. Roy A. Haynes, which is to say quite full of politics. It grieves me to report further that among the long list of Republican Senators who declined to keep hands off as urged by General Andrews and who strenuously insisted upon a veto of the appointments in his state, was the godly Senator Pepper of Pennsylvania, he who so warmly commends himself as an unselfish servant of the public and a lover of the true, the good and the beautiful. From Senator Moses, Watson, Curtis, Dale, Willis, Weller and the rest it was to be expected that they would, if there were any way to do it, horn in on these appointments, but not Senator Pepper. No wonder General Andrews has failed. No wonder the bootleggers boast they have the number of the new régime. It must be a heartbreaking experience for General Andrews. When he sits down and thinks of the way in which the White House spokesman at Swampscott last August told the world he was to have a "free hand" and then thinks of what he got, there must be a somewhat bitter flavor to his reflections. I know there would be to mine.

Coincident with the opening of the sessions of the House Ways and Means Committee here and the start of work on the framing of the new tax reduction bill, the propaganda in favor of the big surtax cut and the elimination of the federal estate taxes as recommended by Mr. Mellon, began.

From a bureau here in Washington, financed I am told by certain big New York banking interests, the publicity side of the fight is being directed. Letters and literature are going out from here to big and little bankers not only in every large city but in every town of over 15,000 inhabitants. The idea is so to solidify financial sentiment back of the Mellon plan that by the time Congress meets there will be gathered a force behind it strong enough to sweep aside all opposition. Practically every big money-making newspaper and every newspaper owner with a large personal fortune is already in favor of the measure, prepared to battle as they did last time to the very limit of their ability for its passage. All this sounds as if there would be comparatively smooth sailing for the administration taxation program in the Senate—but that depends upon Borah. If he sufficiently appreciates the humbuggery in the argument that the way to help the poor man is to cut the taxes of the rich man, and is enough interested to make a real fight for real tax reduction, the smooth sailing idea will disappear and the whole administration program will be in danger of being swamped by rough water. So far Mr. Borah has not definitely committed himself, but that very fact fills the little White House circle with vague apprehensions.

They know that the administration line-up in the last session behind the first Mellon bill was just as strong and yet it failed. The talent of Mr. Coolidge for failure in Congress has been demonstrated so often that even some of that little Massachusetts group around him are sceptical.

However much they are justified I do not believe Senator Walsh and other Democrats who plan to assail the Coolidge administration for the astounding futility of the administration's prosecution of the oil cases, will succeed in getting any satisfactory response from the public. It is sad to admit this, but it is beyond doubt true.

When the full facts about the oil cases from the date of the exposure of Fall, Doheny and Sinclair to the present time are reflected upon, the utter failure to bring them to any positive issue, either criminal or civil, certainly constitutes what seems to be one of the most dreadful breakdowns of justice that has occurred in all our history. It is a spectacle certain to strengthen popular belief that the law is not evenly administered, that it is singularly and invariably ineffective in reaching and punishing men of wealth and political influence. There is no space here to assemble the facts and present step by step the botch that has been made of these cases and show the absurd ease with which the big fish have escaped from what appeared a tremendously strong legal net. It is enough to say that the whole business has become a farce.

Through the disappearance of witnesses, the bungling of the special counsel for the administration, the remarkable decisions of the federal courts, the men who looted the country and disgraced their office can and do laugh at the puny efforts to punish them.

It is not only the fault of the department of justice and of the special prosecutors, who to put it mildly have not covered themselves with glory in the handling of the cases, but the courts too are culpable. The whole machinery for the production of witnesses and evidence has bogged down and the ability of the counsel for the accused to erect obstacles here in Washington in the way of a second trial seem to indicate not only that no one has as yet been punished, but that no one will be.

Now, Senator Walsh and others I am told propose to spread these facts and others even more damning on the

record and to make many speeches on the subject in the Senate this winter. They would certainly be negligent of an imperative duty if they failed, but they will not get anywhere with the attack. For curious political and psychological reasons not unconnected with the prosperity of the country and the passionate absorption in money-making, the people cannot be aroused over the oil frauds. I agree that first the exposures and now the failure to punish should stir the public to a big state of indignation, that there should sweep over the country a real wave of wrath, but there has not and there will not. The thing is dead. It never struck a real spark. It cannot be rekindled. It is a great pity, but it is true. For this state of affairs the newspapers of the country are I think primarily and largely responsible. The big, rich ones like the New York Times were so desirous of the passage of the Mellon bill, which meant large savings in their taxes, that they not only refused to get excited themselves, but entreated the public to be calm over the exposure of what seems still to be the most disgraceful government scandal in a hundred years. They feared that in some way it would detract from the influence of Mr. Coolidge and thus lessen the chances of the passage of the bill. The same conditions exist today and the same newspapers will see no more reason for excitement over the failure of justice in these cases than over the original exposé.

Despite his bold words some weeks ago to the effect that come what would he intended to be a candidate to succeed himself in the Senate, friends of Mr. Butler of Massachusetts, interested in the textile business, say that there still exists some uncertainty about his candidacy. The more Mr. Butler hears about the sort of campaign ex-Senator David Walsh proposes to make against him the less he seems to see in public life. It is certainly revealing no secret to say that Mr. Walsh is busy these days collecting unpleasant and embarrassing questions to ask and remarks to pass on Mr. Butler. But next summer when the fight really starts Walsh's friends say he will have the largest and most unpleasant collection of such questions and remarks ever gathered in Massachusetts.

The present attitude of Mr. Butler I am told is that the seat in the Senate is not worth going through this sort of fight and that politics is not the thing for which he is fitted anyhow. With this, various Republican leaders who come here on business connected with the National Committee are in hearty accord. Said one of these to me a few days ago—"As a politician Butler is a good yachtsman."

Washington.

T. R. B.

Against Fog

Rich world of tint and line, of hue and cry,
Of music and motion, counterplot to Death
Most vain, most valiant, blaze upon the eye,
Come resonant on the eardrum, and let breath
Be drawn in savor only. Far too thick
This muffled atmosphere, this yellow pall
Wherein we peer and listen, strained and sick,
And calling through the murk as all men call.

Lo, the wild beasts more stately to and fro
Move through a landscape cleaner cut than this
Opaque dim Paradise of ours, so blurred
By the brain's mist. Where deer and panther go,
No gray vapor of nomenclature is,
No film of title coats the colored bird.

ROLFE HUMPHRIES.

Shake Your Feet

THE scientific students of dancing have a pretty subject made for their hand. A little over a year ago, in a negro revue called *Runnin' Wild*, Messrs. Miller and Lyles presented a new dance, the Charleston. Everything about it was fresh and exciting; the steps were complicated, sometimes outrageous; and the dancers helped the band by beating and slapping and stamping out the rhythm which, in turn, was startling and complex. For a doctorate in the lively arts I suggest a thesis, not only analyzing the event into its elements, but delving into history and discovering whether the song was written before the music, the music composed before the dance; or did some genius create a new step and cry aloud for a fresh idiom?

The first impression made by the Charleston was extraordinary. You felt a new rhythm, you saw new postures, you heard a new frenzy in the shout of the chorus. You were aware that in all this novelty there persisted elements as old as the cakewalk and probably as native, as traditional, as the levee dances. To me there is an extra flick of pleasure in the thought of this development; and another, even greater, pleasure in seeing a dance which uses the whole body far more than the now conventional steps of the foxtrot and one-step. The Charleston as an exhibition dance employed to advantage what the extravagant shimmy had brought in—the quiver of the body otherwise motionless, the use of the torso in the dance; it added the movements of the hips, thighs, buttocks, made familiar since *Shuffle Along*—the characteristic negro freedom of movement, frank and engaging; the patting which accompanies the blues was varied to slapping and the hand fell on any portion of the body, in a frenzy. As if excited by the dance to the point where they did not care whether they were graceful or not, the chorus assumed the most awkward postures—knock-knees, legs "akimbo," toes turned in until they met, squattings, comic little leaps sidewise. And then, the visual high point of the dance, these seemingly grotesque elements were actually woven, in the rhythm of the dance, into a pattern which was full of grace and significance, which was gay and orgiastic and wild.

The experts whom I have timidly questioned assure me that the time of the pure Charleston is new. The ordinary syncopation of ragtime seems to have been aggravated and the accent falls in between the beats where you naturally expect it. This is what gives the Charleston its breath-taking quality; it corresponds exactly to the sharp broken intake of breath when you run into some one coming round a corner, when you make a mistake walking down a flight of stairs in the dark. Accustomed to the off-beat of jazz, we are startled again by this division of time-intervals, startled and exhilarated. It is a variation which multiplies the intricacies of jazz. Until you are accustomed to it the Charleston tempo is a little unnerving; and trying to follow it, even so distantly as in beating time, is a little maddening. There seems to be no telling when the accent is going to arrive; you are bewildered and excited as you are by the shifting measures of the *Sacré du Printemps* when you first encounter them. Yet neither the one nor the other is actually irresponsible; it is only the phenomenon of a new pattern that is disconcerting.

The Charleston, not yet two years old, has already had interesting developments. The first impression—that it was purely an exhibition dance which the amateur would do well to leave alone—has been corrected. It seemed a specialist's style, no doubt, because of the superb negro chorus which first presented it, the abandon to the dance was so

complete, the separate movements so broad and free, that there seemed no possibility of two people doing it together. The tango, a superb exhibition dance, both beautiful and complicated, entered the dance hall by simplification; essentially it was always right for the amateur because it was based on the relation of one body to the other. The Charleston, as we first saw it, seemed to admit no relation between bodies; it required only the relation of one body to the music. Certain "steps"—where the dancer crosses his hands on his knocked-knees, weaves them back and forth, teetering at the same time on the ball of the foot (a step, I may say, extremely lovely to watch, when it is done by women, in spite of the way it sounds) are not in our present style of dancing at all. Our style, the one-step style, requires the dancers to be continually in each other's arms; whereas some of the essential moments of the Charleston would drive them apart as remorselessly as the Apache mime-dance does. Nevertheless, there are enough steps in the Charleston adaptable to the duet, and schools are teaching it, the movie houses hold Charleston contests, little children imitate its steps on the sidewalks and along country roads—I have seen them. Integrated largely into the one-step they add a needed refreshment to its growing sloppiness and monotony. Slide, balance, weave, kick—shake your feet! The Charleston gives you liberty. Only, like many other liberating influences, it is a discipline, hard to master; and if you do not master it, taking the liberties without the discipline, the resulting awkwardness is disgusting.

On the professional stage the Charleston has not quite destroyed acrobatic dancing; it has provided a more exciting mark for the good dancers to aim at, a new basic pattern about which they can weave their own variations. The best of the numbers developed this year, as I have seen them, is danced by the Gertrude Hoffman girls in *Artists and Models*, a bacchanale which is far more thrilling than the number in which the same girls drape themselves around wide ropes of webbing and sail out over the audience. The bacchanale seems to me altogether out of the ordinary, and it is a pity that it comes so early in the evening that many people miss it. It has the appearance of being entirely disorganized, a chaos in which each girl does something wild without caring what the others are doing. It has, of course, some sort of form—must have if only to keep the girls in their positions. But the exciting thing is the individual use of the entire body—even the neck and the head participate in the movement, making one think of those "barbaric" dances Havelock Ellis describes, for the dance is voluptuous and frenetic. That is the Charleston influence on the stage.

How far that influence can effectively reach the private citizen is a question. The turkey-trot and its similars were supposed to be liberating dances; they gave the decisive blow to the stately dance, but they did not survive—because they were ugly, I think, more than because they were "immoral." They left the field free for the fox-trot and the one-step, easy to learn, pleasant enough to dance to, and giving sufficient freedom so that you had the satisfaction of creating your own conformity with the rhythm. They have lasted some ten years—a brief span if you compare the popularity of the waltz, or the schottische, or the Boston; and today the Charleston has made them seem stuffy, over-polite. The new dance, threatening them seriously, is at the same time more definite in its steps and more abandoned. It is certainly much more exciting to watch than any other current dance; excepting the tango it has all the points of all the others. And the triumph of

doing even its most elementary steps correctly is more of a thrill than waltzing the original Merry Widow up and down a circular staircase.

GILBERT SELDES.

A Man Bereaved

(From the Scots Gaelic)

My wife and my comrade
Shall not waken at all,
Though the pine tree shall blossom,
The young rush grow tall!

She'll not cross my threshold,
Nor with me abide,
Sit down on my doorstep,
Nor lie by my side!

No more to the hilltops
Have I heart to go,
Nor to walk in the woods
When the summer sun's low.

I weary with delving,
With driving the plow;
I lie on my bed,
But sleep's gone from me now.

The spring time and harvest
Will come as of old,
But I'll not hear her lilting,
A-field or in fold.

I'll not hear her sounding
Songs over the din
Where the people are crowded,
The reaping being in.

Though the goats to their time come
With nobody there,
Though the watched heifer calve
With none to take care,
From the churchyard my woman
Home never will fare!

My clothes are unmended,
My wool is not spun;
My cows low for their milking
In the full height of noon!

My house is unswept,
And bare my hearthstone;
On the floor and unfondled
Stands the youngling, my son!

On the floor and untended,
Stands the youngling, my lamb:
Hush, hush from your ba-ba,
She'll not come, your dam!

PADRAIC COLUM.

C O R R E S P O N D E N C E

Art out of Industrialism

SIR: Waldo Frank's article on the Comedy of Commerce is highly provocative if little else.

Does Mr. Frank, like the distinguished but hopelessly sombre array of gentlemen who, under the redoubtable guidance of Mr. Gruening recently reviewed with great alarm These United States, also wish to have us Europeanized, eviscerated of our advertising, our jazz, our skyscrapers, our machinery, without which we are not America? If so, I earnestly protest. Like all critics of this country, Mr. Frank has failed to note that the difference between America and Europe is fundamental not superficial as he seems to think it is; a difference which due to the underlying psychology of the American people, which is the psychology of an immigrant people in search of "new manna," grows greater day by day.

In Europe, it is true, industrialism was counteracted to great extent by a solid foundation of culture, but here where we had no real culture or background, industrialism naturally reached its full bloom and has today reached such a great stage of perfection, that some of its more illustrious fruits are capable of giving great æsthetic satisfaction. There is greater potential and manifest spirituality in some of the forms inspired by Industrialism and Big Business in America than in all of the work wrought a rebours today and if a man like Ring Lardner who writes for money and has no æsthetic sense of his medium whatsoever can create *The Champion* and *The Golden Honeymoon*, what could the young artist with an understanding of his medium and sufficient genius to direct that understanding, who accepts America for what she is: young, dynamic, robustious and growing, do with the same material? The same with jazz. Most of it is mechanical but then a great genius comes along manipulating jazz accents and gives it justification. But Mr. Frank says it "is a moment's gaiety, after which the spirit droops, cheated and unnurtured." How account for the fact that jazz has been the means of invigorating most of European contemporary music? Jazz springs from the same forces which created the skyscraper and the locomotive, and is good. American art of tomorrow must proceed from a synthesis of the forces let loose by commerce and not from another gentler channel which Mr. Frank believes will flow parallel with the disintegration of Industrialism.

Philadelphia.

DAVID PLATT.

"Reconciling" Science and Religion

SIR: Writing as one trained as a biologist, who has both taught biology and contributed to it, and also as one who has had his share of difficulties due to open espousal of evolution, I am ashamed of my fellow-scientists in the recent controversy about evolution.

They have been entirely unscientific in their approach to the situation. I am psychologist enough to know that the appeal to emotion is more effective than the appeal to reason, and hence I accuse the scientists of unscientific approach when they have tried to reason the matter out instead of creating an emotional atmosphere hostile to the opponents of evolution.

They have further been unscientific in attempting to show that there is no conflict between the results of contemporary science and the rudimentary sciences of Genesis, without showing that Genesis is, in fact, neither more nor less than such rudimentary science. That is, they have omitted one factor in the problem.

They have further been unscientific in that they have had the courage to state what a fair number of them really think; that without evolution as its basis Christianity is mere egotism.

They have more completely been unscientific in that they have consistently neglected to mention—much less bring forward prominently—the three clinching cases of observed evolutionary transformation. Haeckel in 1876 on sponges, De Vries in the '90's on *Cenothera*, and Kellogg and Bell in 1897 to 1905 on *Vedalia* beetles, have reported actual transformations of one species into another. But our proponents of evolution are content with successions of fossils, embryological recapitulations, and theories.

A genuinely scientific stand would have been to make clear, by many repetitions, the observed fact of evolution, and thus to have created a mental attitude in the public that would reject anti-evolutionists as entirely ignorant.

Verona, N. J.

STEPHEN G. RICH.

Government Operation

SIR: The Sun (New York) in its efforts to discredit government operation, persists in printing untruths and refuses to correct these untruths after they have been called to its editors' attention. It is deplorable that a newspaper like the Sun (see its issue of September 29) will continue to repeat what its editors must know to be untrue—unless they wish to confess inexcusable ignorance—when they call our war-time railroad operation "federal operation," the fact being that it was federal operation in name only, all the railroad officials during this federal operation being the same men who operated the railroads before war conditions compelled the government to step in to save the railroads from chaos and the country from disaster.

Also, the Sun's statement that "Here and abroad government ownership has made a record of waste, extravagance, favoritism and red tape" is belied by the record of the Canadian National Railways—with its express and telegraph and steamship services—the greatest railroad system in the world in point of size and character of service; and of the Panama Railroad Company (and steamship lines), owned entirely by the United States government, which has just paid into the United States Treasury a cash dividend of 5 percent, making a total of 10 percent since April 8, in addition to acting as an effectual check on the rates charged by private steamship companies, and carrying government freight and passengers at nominal rates; and by other instances of successful government operation too numerous to mention.

No one knows better than the editors who write screeds against government operation that their editorials are false and fallacious. Every one knows, from personal experience, that no privately-owned public service corporation gives as efficient service, or at as low cost, as does the Post Office department in all of its divisions. It is only when the enemies of government operation corrupt it—as for instance was the case with the Shipping Board when over five billion dollars of the American people's money was deliberately wasted, squandered and stolen—that government operation is a failure.

The New Republic rendered an important service to the people when it published the facts regarding the Canadian National Railways, and I hope it will be able to give space to this communication.

PHILIP MANSON.

New York City.

Temperance vs. Prohibition

SIR: Your editorial of September 21—Shall we have prohibition? prompts the enquiry—"are we never to have temperance?" If complete prohibition is to come through force—and that seems to be the only method considered by the law makers and the dry enthusiasts—it will take us through an ever-widening net of ever harsher laws; government control of all fruits, grains and sugars, an army of house-to-house spies, drain of taxing beyond the tax makers' maddest dreams, the death penalty for all accused or suspected of having spoken the words "alcohol, wine, drink, etc., as set forth in the code."

Temperance is a basic principle taught by every great mystic and founder of a religious movement; the principle of self-control being recognized as the only true path to that balance, measure and strength of will leading to mastery of evil.

The placer miners say: "Pressure from the top brings out the small stuff below"; the harsher the laws, the stricter the prohibitions, suppressions, censorings, the more determined will be the fight of the individual for his personal rights and liberties.

The cure for the drink evil and the even worse evils of prohibition which the writer suggests, is the direct opposite of all these methods of force.

Let the government make wine and beer, of the purest materials only, and sell it at cost. Let this liquor be issued for distribution to all post offices in the U. S., to be sold in the original sealed packages by the U. S. government. This will put an end to the illicit traffic in "booze" by taking the profit out of it. When the profit is taken out of liquor, the liquor problem will cease and we shall be on the road to temperance.

ELIZABETH G. YOUNG.

Cecilville, Cal.

Tchekhov

The Life and Letters of Anton Tchekhov. Translated and edited by S. S. Kotliansky and Philip Tomlinson. New York: George H. Doran Company. 315 pages. \$6.

THE interest in Tchekhov does not wane. Since his death in 1904 the translation of his stories has gone steadily on in the able hands of Mrs. Constance Garnett, and his reputation has increased, until he stands with Turgeniev, Tolstoy, and Dostoevsky as one of the four Russians of incontestably first rank in the literature of the latter nineteenth century. Added to the appeal of his fiction is that of his personality. Tchekhov wrote letters with the same fecundity as he wrote stories, and with the same immediate sense of reality. Six volumes of his correspondence have been published in Russia. The present volume contains some of the important letters included in Mrs. Garnett's selection, and others chosen apparently to give a connected story of his life. Two episodes which comprise Tchekhov's public service, his journey to Saghalien to investigate the penal colony, and his activity during the cholera epidemic, scarcely touched in this later collection, are fully covered in Mrs. Garnett's, which thus remains indispensable.

Several threads of development lead through the present volume. There is first the story of Tchekhov's literary career. Born into a family of recently emancipated serfs at Taganrog he proceeded to the University of Moscow, and began to write anonymously for humorous journals as a source of livelihood. He attracted the attention of Suvorin, editor of the *Novoye Vremya*, and through this newspaper found steady market for the work which became characteristic of him. His growing affluence and promotion to landed proprietorship, his family loyalty, his struggle with the malady which was to end his life at forty-four, are reflected in his letters. His stage history, beginning with such vaudevilles as *The Bear*, passing through the dubious success of *Ivanov* and *The Sea Gull*, and culminating in his connection with the Moscow Art Theatre and his masterpiece, *The Cherry Orchard*, is a marked episode. His relations with his contemporary fellow-craftsmen particularly with Tolstoy of an older generation and Gorki of the younger is another special interest. Toward Tolstoy he felt the affection of a son and the loyalty of a follower to a master craftsman. "I never loved anyone as I love him," he wrote. "While Tolstoy is in literature it is easy and pleasant to be a writer; even to be aware that one has done nothing is not so terrible since Tolstoy does enough for all. His work serves as the justification of all the hopes and anticipations built upon literature. . . . His authority is immense, and while he lives, bad taste in literature, banality of every kind, impudent or lachrymose, all the bristling, exasperated vanities will remain far away, deep in the shade." To Gorki he wrote with finely critical enthusiasm: "You feel superbly, you are plastic; that is when you describe a thing you see it and touch it with your hands. That is real art." On the other hand: "You do not use sufficient restraint. You are like a spectator in the theatre who expresses his rapture so unreservedly that he prevents both himself and others from listening." Later he transmitted to Gorki Tolstoy's verdict: "One can invent anything one likes, but one cannot invent psychology, and in Gorki one comes across psychological inventions; he describes what he has not felt." Tchekhov's opinion of Andreyev was extremely interesting, reflecting as it did his attitude toward the new movements which broke the solid front of naturalism;

and it is one of the unaccountable lapses of the present volume that it contains no single reference to this (with Gorki) most notable of Tchekhov's successors.

The most engaging theme running through the letters is Tchekhov's exposition and defense of his art. His attitude toward fiction is indicated by his comments on Gorki and Tolstoy. He believed very simply in the two requirements of reality and distinction. The basis of reality was for him the material world. To perceive its phenomena, natural and human, through the senses, to understand them in relation to each other and to establish the pattern among them were the elemental things in art. First of all, Tchekhov was a peasant; and he never lost the peasant's immediate contact with reality, his avid curiosity with regard to it, his frank, wholesome acceptance of it in all its aspects. This judgment of the senses was his first canon of criticism. In writing of Zola's *Clotilde* in *Doctor Pascal* he exclaimed: "I can feel her waist and breast"; as in a letter to Gorki, unaccountably omitted from the present collection, he said of the background in *Twenty-six Men and a Girl*: "I can smell the baking bread." The question of the limits of naturalism and its right to deal with the unseemly and unsavory was to the fore in the days of Tchekhov's apprenticeship, and he expressed himself fully in regard to it. "To believe that it is the duty of literature to dig out 'pearls' from the heap of scoundrels is to reject literature itself. Fiction is called artistic because it draws life as it actually is. Its aim is absolute and honest truth." The letters are full of evidence of the matter-of-fact way in which he went about his literary task. Any incident within his observation, any complication among his friends, a face seen at a window would furnish him with a starting point from which his imagination would complete the human pattern.

In the second place Tchekhov was a trained scientist, a physician. He tells us that his medical studies had an important influence on his literary work in widening his range of observation and adding to his knowledge. He prided himself on using scientific methods of precision, and of squaring his observations with scientific data. Above all, his science gave him complete confidence in his approach and method. When Paul Bourget published in *Le Disciple* his attack on the materialism and experimentalism of the scientist, Tchekhov expressed his astonishment almost naively. "A campaign against whom and for what? Where is the enemy? What is the danger from him? Everything alive on the earth is by necessity materialistic. . . . Beings of a higher order, thinking men are found to be materialists by necessity. They seek for truth in matter, for there is nowhere else for them to seek it, since they see, hear, and sense matter alone. Of necessity they can seek for truth only when they can use their microscope, lancets, and knives. . . . Outside matter there is neither experience nor knowledge, and therefore no truth."

In this world of the tragic implications of which he was, owing to his illness, more fully conscious than most men, Tchekhov found the supreme consolation in the art which gives distinction and nobility to phenomena in themselves ugly, unclean, brutal. It was in this faith that he found the leadership of Tolstoy most inspiring. "For those who are inspired by the scientific method, to whom God has granted the rare talent of thinking scientifically, there is in my opinion but one way out—the philosophy of creative art. It is possible to gather together all the best that has been created by artists throughout the ages, and, employing the scientific method to grasp the common element which makes them like one another and conditions their value." And this common element is one of purpose. "The best

of them are realistic and paint life as it is, but because every line is permeated, as with a juice, by awareness of a purpose, you feel, besides life as it is, also life as it ought to be." It is with a tragic sense of his own limitation that he adds: "We paint life as it is, and beyond that . . . even if you lashed us with whips we could not go. We have neither immediate nor remote aims, and in our souls—a great emptiness."

ROBERT MORSS LOVETT.

Bygone Travel

Travel in England in the Seventeenth Century, by Joan Parkes. New York: Oxford University Press. 354 pages. \$7.

SOMETHING of a sensation has been caused in literary circles by the article in the July number of the *Quarterly Review*, in which Mr. Fleming demonstrates how Shorthouse built up that tour de force of local color, that embodiment of the very spirit of the seventeenth century, John Inglesant, by the wholesale borrowing and dovetailing together of passages from contemporary works. The disintegration by Mr. Fleming is almost as masterly as the original integration by Shorthouse; and the only marvel is that there should be idiots (among whom Mr. Fleming is not to be counted) who consider that the discovery detracts from Shorthouse's genius. For Shorthouse was but employing the method of the historian rather than that of the novelist; he was creating from his fiches instead of creating from his inner consciousness, but it was creation all the same. It was the method pursued by Macaulay, although Macaulay passed his material more completely through the filter of his mind; painted, so to speak, in water-colors rather than laid down in mosaic. It is the weakness of the modern school of social historians that they too often omit the act of creation, and present their invaluable raw material neither in a picture such as the historian Macaulay paints, nor in a mosaic such as the novelist Shorthouse composes. Miss Parkes's book is an example, though an excellent one, of the new school. It remains from first to last a compilation: and to compare it with Macaulay's famous third chapter will demonstrate at once the weakness of method. On the other hand, she can write; where she has permitted herself to digest and recreate her material more freely (as in her last chapters) the jerkiness of the collection of extracts becomes lost; and, in any case, her book is one which will be henceforth indispensable for all who are interested in the social background of the seventeenth century. Future Shorthouses will find it a godsend.

Nowadays he who aspires to the name of traveler perforce travels quick, or else he travels far. In train or motor or aeroplane he races over the continent; or else he travels leagues to China or to South America, in order that he may, if he wish, break from the tourist and travel slow, see the world face to face instead of through the tail of his eye, and prove the truth of Ruskin's aphorism that the interest of travel is in inverse proportion to its speed. But in the seventeenth century all was different. There was the grand tour, of course; the Nabob was beginning to appear; and even a Channel passage was not unfraught with adventure, as witness Miss Parkes's extremely amusing account of Queen Henrietta Maria's crossing, with her seasick maids of honor all screaming and confessing their sins at the tops of their voices to the equally seasick Capuchin fathers who accompanied them. But he was also a traveler who traveled in England alone; the intrepid Mrs. Celia Fiennes, who

rode all over the country on a side-saddle, was the forerunner of Lady Hester Stanhope, of Mrs. Isabella Bird, and of Miss Gertrude Bell. As for speed, the traveler must needs travel slowly. Unspeakable roads were the rule everywhere, and the richer the agricultural soil through which they passed, the worse they were, as many a rustic proverb testified: "There is good land where there is foul way," "What is worse for the rider is best for the abider." In winter, indeed, large parts of the country were impassable. But some roads were better than others, and Charles II even suggested that Norfolk, which enjoyed a good reputation in this respect, should be cut up to provide roads for the rest of the kingdom. Bad roads and broken bridges did not prevent the Englishman from being notorious as a hard rider, and an Italian proverb declared "England is the Hell of Horses, the Purgatory of Servants, and the Paradise of Women," two of which qualifications would not be true today.

Those who could not ride traveled in coaches, of which "Hackney Hell Carts" there were some 6,000 in London alone in 1635, and so uncomfortable was their lumbering gait that "to be coached" was a regular expression for getting used to any violent motion. More lordly, if not more comfortable, was the private coach, and the honest "water poet," John Taylor (of whose travels Miss Parkes makes good use), was overcome with a "Timpany of pride," when he once found himself riding in the coach of the Lieutenant of the Tower.

In what state I would leane over the boote and looke and pry if I saw any of my acquaintance, and then I would stand up, vailing my Bonnet, kissing my right claw, extending my armes as if I had beene swimming, with God save your Lordship, Worship, or How doest thou honest neighbour or good fellow?

There were dangers, too, for the adventurous. Your adventure seeker must go to China now to be held up by brigands, but then the road swarmed with highwaymen and footpads and other light-fingered gentry, and not even the strictest compliance with the hints laid down by the reformed highwayman Clavel, in his *Recantation of an Ill-Ledde Life*, could be relied upon to render the traveler immune. Highwayman-hunting was almost as good sport as highway robbery itself; Richard Dawson, head of the Vauxhall glass works, used regularly to drive out to Kennington Common with his servant Kit, "disguised sometimes as old ladies, and when attacked [they] would rush out at opposite doors, take their assailants in the rear, handcuff them, put them inside the coach, and then drive off in triumph." Less romantic pilferers and horse thieves haunted the inns, and the advertisements of the *London Gazette* are a continual testimony to their exploits. There were more homely dangers, too, and the motorist of today might sympathize with the lachrymose young lady of 1682 who lost

between eight and nine a Clock at Night, from behind a Coach, between Aldermanbury and the Turning into Love-Lane, a Hair-Trunk, with the following things in it, a sad coloured Venetian Petticoat, with a Campaign Lace at the bottom; a cherry coloured Sattin Petticoat, Laced to the top with Silver Lace; a purple and white Silk Petticoat; a pair of hair coloured Sattin Stays, Embroidered with Gold and Silver; a Venetian Mantua, hair-coloured and white, faced with black Shag; and some Linnen marked with an S.

What is the good of turning into Love Lane, when one's cherry-colored satin petticoat and stays embroidered with gold and silver are left upon the dusty highway?

But traveling in the seventeenth century had its advantages as well as its disadvantages. If the country folk were often rude and greeted the solitary wayfarer or the foreigner with stones, the gentry were hospitable to strangers, and made no objection if you wished to be shown over their country seats or to course one of their hares on the way. And then what pleasant rustic customs you met with! When you walked up Highgate Hill to rest your horses, out came the folk of the inn at the top, with a pair of horns upon a long pole, and there and then administered the Highgate Oath to you, and you swore never to eat brown bread while you could get white, never to drink small beer while you could get strong, and never to kiss the maid while you could kiss the mistress, unless you liked the other best; after which the freedom of Highgate was yours. And what things there were to see, too! Could Beau Nash have visited the glimpses of the moon a century before his own day, imagine his speechless horror on beholding what a gallant Lieutenant of Norwich describes, early in the seventeenth century, at Bath:

There met wee all kinde of Persons, of all shapes and formes, of all degrees, of all countryes, and of all Diseases, of both sexes: for to see young, and old, rich, and poore; blind, and lame; diseas'd and sound; English and French; men and Women; Boyes and Girles, one with another, peepe up in their Caps, and appeare so nakedly, and fearefully, in their uncouth, naked Postures, would a little astonish and put one in mind of the Resurrection.

To be put in mind of the Resurrection at Bath would have vastly incommoded both Beau Nash and Miss Austen. However, Miss Parkes observes that before the end of the century "les convenances had decreed the wearing of garments of fine yellow canvas," more reminiscent, no doubt, of the moneybags of Mammon than of the last trump. Miss Parkes has a very pretty taste in quotation, and her book is full of gems of this sort, and deserves to be read by all who like to travel in the past. It is admirably produced by the Oxford University Press, with forty-six plates and a road map of 1689.

EILEEN POWER.

The Age of Seduction

Dangerous Acquaintances, by Choderlos de Laclos. Translated by Richard Aldington. New York: E. P. Dutton and Company. 435 pages. \$5.

SPEAKING in a recent work of Choderlos de Laclos's famous and notorious novel, Georg Brandes referred to it as "a hideous book of considerable literary importance." Professor Saintsbury, on the other hand, thinks so little of its importance, and so much of its hideousness, that he did not even mention it in the main body of his great work on the French novel. Being criticized on this account, he added a note to his preface sweeping the book out of further consideration as a piece of tedious dirt. In the spirited introduction prefixed to his most excellent translation of *Les Liaisons Dangereuses*, Mr. Aldington argues with considerable success not only for the high-minded sincerity of the author, but for the high artistic merit of the work itself. This work is to him one of the documents preparing the great revolution, and, above all, a bitter arraignment of that higher French nobility who produced the *petit maitre* and the general corruption out of which the subsequent

terrors grew. A study of the book itself as now translated shows that, while its eroticism is marked and, at times, very outspoken, it lacks the suggestiveness which should be inseparable from a true specimen of *facetiæ*. And the main interest does not attach to the detailing of sundry amorous incidents, but to the characters playing a part in those incidents. Among these characters, the professional titled seducer, de Valmont, and the villainess, the Marquise de Merteuil, easily lay first claim to the reader's attention. Both are drawn with great skill, and in their delineation lies the author's chief claim to recognition as an artist of commanding gifts. Notwithstanding many boresome passages, caused by its epistolary form, the book holds the interest remarkably and accumulates dramatic suspense right up to the finish, which should be held moral enough for the most puritanic heart. And yet one drops it at last with a sense of uncertainty why it should have been read at all. Except to the literary or social student, it is too far removed from the present day in its motives. The nature and spirit of the conflicts forming the dramatic element are too unbelievable in the light of the last century's development of woman's position as well as of our general view of human rights. The writing of that book was possible only in a social organism where large elements lacked all rights, and only in a similar organization can it find readers of complete appreciation.

EDWIN BJÖRKMAN.

Growth of the Mind

The Growth of the Mind, by Kurt Koffka, of Giessen. New York: Harcourt Brace and Company. 383 pages. \$4.50.

ANALYSIS of one kind or another is the basis of science. One who reads such an account of a full grown science as is given in an elementary text book often finds it difficult to realize what a baffling problem lay before those who first tried to divide up chaos the better to understand it. Into what to divide matter? Modern chemistry has rendered obsolete the crude reply of twenty-five centuries ago; modern physics has pushed the analysis still further. Not so commonplace today, but equally important is the question "Into what to divide mind?" "Sensations" or "reactions," have said the orthodox modern psychologists. The new German school has proposed a fresh mental unit which is called the "Gestalt" or configuration, and it is with this new unit as a basis that Professor Koffka has attempted to analyze the child's mind.

The result, it is claimed, is a restatement of the whole problem of child psychology, and the liberation of a number of stalemated controversies. There is, for example, the general question of learning. Since Thorndike's experiments on animals in puzzle boxes and Ruger's on human beings, it has generally been taken for granted that one solves a problem by "trial and error," different solutions being tried out one after another until the right one "happens along." The resulting satisfactory state of affairs, according to the theory, stamps in the successful response, which is repeated more quickly when next the problem comes up. Thus we take less and less time to perform this particular operation on successive occasions. But just what is the nature of this stamping in, and how the satisfaction operates to produce it has never been explained. Lloyd Morgan meets the question by a profession of ignorance. Thorndike invokes the *deus ex machina* of an inherited tendency.

Let your dollars serve as well as earn

Money invested in the City Housing Corporation stock is paying 6 per cent

TODAY you have an opportunity unique in the investment field—safety of principal with a steady income and the assurance that your money is being used for constructive philanthropy.

City Housing Corporation was organized to build better homes and communities for people of moderate incomes. Already homes for three hundred and fifty families have been built at Sunnyside, Long Island City. The cost of ownership is actually less than the rental of dark rooms in the city. The activities of the City Housing Corporation are considered the most

significant housing movement of the decade.

But best of all, earnings from operations put the City Housing Corporation stock on an investment basis. The Corporation has paid 6% dividends since the very beginning, and will have a surplus of over \$100,000 by January 1st, 1926. The Corporation is capitalized at \$5,000,000. Over \$1,000,000 worth of stock has been bought and paid for. The balance in shares with par value of \$100 is now being offered for sale. For complete information write City Housing Corporation, 587 Fifth Avenue, New York City, or send in the coupon below.

CITY HOUSING CORPORATION

A limited dividend company—

Organized to build better homes and communities
Authorized Capital \$5,000,000 in shares of \$100 each.

DIRECTORS

Alexander M. Bing
President

Dr. Felix Adler

John G. Agar

Leo S. Bing

William Sloane Coffin

Thomas C. Desmond

Douglas L. Elliman

Prof. Richard T. Ely

Frank Lord

V. Everit Macy

John Martin

Mrs. Jos. M. Proskauer

Mrs. Franklin D. Roosevelt

Robert E. Simon

City Housing Corporation,
587 Fifth Avenue, New York City.

Please send me
descriptive literature

Name

Street

City State

R-1

Read

Can the Majority Rule?

Walter Lippmann's THE PHANTOM PUBLIC

By the author of "Public Opinion," etc.

"Here is a book which offers no legislative plan, no political panacea, and is in itself an antidote for all books on 'questions of the hour,' which it is the public's sacred duty to decide. Compact, hardhitting. Reading it is intellectual adventure." *Laurence Stallings.*

HARCOURT, BRACE & CO.

383 Madison Ave.,
New York.

465
W. 23rd
Street

THE NEW SCHOOL for Social Research

New
York
City

announces a course of nine lectures on

The Newest Developments in Psychology of
Man and the Apes

By PROFESSOR WOLFGANG KÖHLER

of the University of Berlin, now lecturing at Clark and Harvard.

Professor Köhler is the author of the foremost authoritative work on the mentality of apes, and the leader of the new movement in psychology known as the "Gestalt Psychology."

The lectures will be illustrated by slides and motion pictures.

They will be held on Thursdays at 5:20 p. m. beginning November 12th.

Tickets for course, \$10.00.

Single admissions, \$1.50.

Undoubtedly here is a vulnerable spot in the accepted theory. The trial and error hypothesis has also been attacked on other grounds, and it is probably safe to say that psychologists in general have retained the theory not as the most satisfactory but as the least objectionable explanation of the facts. Adopting, however, the point of view of Professor Köhler's book, the solution of a problem by an animal or a human being is regarded as the process of forming a new "mental configuration." When, in Köhler's now famous experiment, the monkey learned to fit together two bamboo poles to knock down a banana, what happened is explained as the formation of a configuration involving the fruit and the bamboos. In place of a chance "trial and error," there is an elementary "understanding" of the situation, with suddenly a click as the new mental creation goes into place. It is to this configuration and its constituent elements, says the theory, that attention should be given. Once the configuration is set up, it is more or less permanent, and the trick can accordingly be performed more readily when the situation comes up again. Thus by working with a new mental unit is eliminated the necessity for the objectionable "pleasurable association" hypothesis, or its equally objectionable derivatives.

In the same way, "instincts" are series of actions such that "it is enough to present the beginning situation to a human being, and at once an activity is started which continues until the end is attained." The several actions form a unity, and it is on this unity, and the relation of the constituent acts to it and to each other, that we must direct our attention. Memory is the re-arousal of such unities, "configurations" rather than the mutual calling up of individual associations. Imitation is the "arousal of configurations . . . by the performance of an act of the same kind on the part of another individual." The world as it appears to an infant is a world not of isolated sensations but of elementary figures, configurations, upon vague backgrounds. Such are some of the reformulations and new conceptions that follow the use of the new instrument of psychological thought.

The view has, of course, its own difficulties. One has, at times, an uneasy feeling that the word "configuration" works with a little too facile a magic; that some of the generalizations would be the better for rather more support; that one has, at times, travelled far from the early, carefully controlled experimental work that first brought the school into prominence. These are, however, the faults of enthusiasm; only time and work can show whether Professor Köhler is justified in all his interesting claims.

GEORGE HUMPHREY.

Southern Pioneers

Southern Pioneers in Social Interpretation. Edited by Howard W. Odum. Chapel Hill: The University of North Carolina Press. 221 pages. \$2.

MR. ODUM is a sociologist with a purpose. He writes to convince the Southern people that the Southern potential may be transmuted into national power; that the civilization based upon leisure and caste can be elevated into one based upon democracy and work. The tools he uses for this purpose are modern Southerners who have demonstrably changed the face of the South. He calls them pioneers, because they are the first to break out of the tangle of inherited prejudices and sectional pride into freedom and open-mindedness and the fearless welcoming of social justice.

The book lacks unity and force because Mr. Odum is the editor rather than the author: not that Mr. Gerald Johnson does not write provocatively about Woodrow Wilson, or Mr. Wade humorously about Augustus Longstreet, but because it is easier to develop a hand normally than to manufacture one from such diverse fingers as the authors of these rather slight essays have brought him.

As portraits the essays are unsatisfactory, but then, they were not meant to be portraits but tools. Mr. Odum is interested primarily in the sociological effect which these various personalities—Page, Knapp, Joel Chandler Harris, Mrs. Breckinridge, E. K. Graham and the rest—have actually produced. Is it therefore at all significant that to one reader, at least, those essays are the most interesting which tend to depart from the laudable purpose of the volume, which create interest rather in the tool and its edge than in the weeds which it cut down and the harvest which it gathered?

However that be, a Northerner lays down the little volume aware of a quickening breeze from the South; to the Southerner it must act as a rational plea for integration of life rather than isolation thereof.

A. W. VERNON.

Emil Fuchs

With Pencil, Brush and Chisel. The Life of an Artist, by Emil Fuchs. New York: G. P. Putnam's Sons. 254 pages. \$7.50.

THERE used to be a superstition that our commercial artists were, perhaps, men of ability, turned by unfortunate circumstances from creative forms of expression to the covers of the Saturday Evening Post. This notion should not survive a glance at Mr. Fuchs's chatty volume; for within those sumptuous pages one discovers what Mr. Harrison Dana Christy might have been had opportunity issued many golden knocks, many royal jovial prods, and many intimate notes (reproduced in elaborate facsimile)—from those great patrons of art who, from time to time, adorn the British throne. Mr. Fuchs, an Austrian by birth, is a sort of Sargent manqué: a slick, facile, brightly banal artist, with that aptitude for meeting the right people which distinguishes salesmanship in all its reaches. His book is very funny indeed; but alas! it may be taken seriously in a country where the magazine illustrator becomes—how like calls to like—the painter of our Presidents!

L. M.

Contributors

J. M. KEYNES, the noted English economist, in this issue writes the second of his articles on Soviet Russia.

J. A. STEVENSON is Canadian correspondent of The Manchester Guardian.

MARJORIE MEEKER has for the past few years published verse and short stories in various magazines.

ROLFE HUMPHRIES is one of the editors of The Measure.

PADRAIC COLUM is the well-known Irish poet and author.

EILEEN POWER recently held the Kahn fellowship for travel in the Far East.

EDWIN BJÖRKMAN is the translator of Strindberg's Plays, and the author of many literary works.

GEORGE HUMPHREY is in charge of the Department of Philosophy, Queen's University, Kingston, Ontario.

A. W. VERNON is Professor of Biography in Dartmouth College.

The New REPUBLIC

Special Taxation Section

Taxation

THIS manuscript is being written in September, 1925. When Congress convenes in December, there will be introduced in the House of Representatives a revenue measure having for its purpose the reduction of taxes. It will be argued that there is a prospective surplus of \$300,000,000 or more for the year 1926, and that taxes can and should be lowered.

That such a bill will receive a large measure of support is certain. Already there is evidence that numerous Democrats will cooperate with the Republicans in voting for it and there are many who believe that the only dispute that can arise is over the exact amount and nature of the reduction. On this at least there may be vigorous debate, but none, it is held, on the main proposal—to lower the taxes.

Tax reduction is an admirable political slogan. Those who advocate it are popular and those who oppose it are in disfavor. Under the circumstances there is some danger of a hasty stampede in support of any sweeping reductions that may be proposed, a danger because at the present time taxes should not be reduced. They should deliberately and firmly be kept at their present level and for reasons that are weighty. The purpose of this study is first to present this conviction of the writer with the reasons for it, and second, to indicate why some of the current proposals for specific reductions should not be adopted.

A little further on in the discussion, attention will be given in some detail to the different arguments in favor of reduction but at this point there should be a brief statement of the main position of its proponents. It is held that through a campaign of economy especially during the last five years, federal expenses have been greatly lessened; that it has already been possible to retire an important amount of our huge debt; that the country is suffering in various ways from heavy taxes; that the campaign for federal economy is to be continued with every hope of success; and that with a large surplus in sight the sensible thing is to lessen the burden.

Such a contention makes a strong appeal to the average citizen. None of us likes to pay taxes. It is not easy to see the return received. Payments to

butcher and grocer bring returns that seem worth while, even though prices may be high. But payments to a government for police and fire protection, for good roads, or for the administration of justice are harder to appreciate. Tax notices and tax collectors are anathema and any proposal to lessen their exactions is welcome.

OUR TAXES ARE HIGH

This is particularly true at present for taxes are higher than ever before in our history with the exception of actual war periods. According to the National Industrial Conference Board (1), total taxes per capita, national and local, for the year 1923-1924 were \$69.72 in the United States, an amount that was 11.5 percent of the national income. This is large, both absolutely and in relation to income, although of course it seems smaller, when compared with taxes in other countries. The authority just quoted estimates that for the same year 1923-1924, the total tax burden in the United Kingdom was 23.2 percent of the national income; in France, 20.9 percent; in Italy, 19.2 percent; and in Belgium, 17 percent. These figures are certainly large compared with our 11.5 percent, but they are even larger than the mere percentages suggest. Twenty percent of a \$2,000 income involves a greater sacrifice than the same percentage of a \$3,000 or \$4,000 income. Much also depends on the way in which burdens are distributed in the two countries compared. But if we assume for a moment that the United States and the other countries mentioned are alike in this regard, we can at once see that our taxes are relatively light. Our burden is less than theirs first, because a smaller percentage of our income is being taken and second, because our per capita income is larger than in any of the countries named, and 11.5 percent of our larger income is a far lighter burden than the 23.2 percent of the much smaller per capita income of the United Kingdom.

(1) The Inter-Ally Debts and the United States, Preliminary Study, 1925, pages 81 and 82.

Yet this is not comforting and perhaps is not even logical. After all, our taxes are heavy, over three times as much per capita as they were ten years ago, and over twice as much as ten years ago, if allowance is made for the change in the general price level. It is inconclusive to argue that we should pay high taxes merely because some one else is paying still higher ones. If we may properly secure relief for ourselves we should do so, regretting that others can not do likewise. Let us then notice at once why sweeping reductions would be a mistake.

FEDERAL EXPENDITURES ARE INCREASING

A series of observations will serve to make the situation clear. First to be noted is that our federal expenditures which increased enormously during the War are now nearly five times as large as before the War in spite of very important reductions since 1919.

One may easily gain a wrong impression of what has occurred in the last few years. Thus the Secretary of the Treasury in his annual report for 1924 lists the expenditures for the five years, 1920-1924, showing a marked decrease year by year. Considering this in connection with the administration's general economy program the reader is easily convinced that strenuous efforts to force economies have brought abundant results.

There is no reason for criticizing the President, the Director of the Budget and others for their efforts at economy. Instead every assistance should be given them unless particular economies would result in undue reduction of service or in the elimination of bureaus or commissions which should be retained. But our zeal for efficiency need not lead us to false conclusions. A better picture of what has occurred is to be found in the following table which gives ordinary federal receipts and federal expenditures (chargeable against ordinary receipts) over an eleven year period.

<i>Fiscal Year</i>	<i>Total ordinary receipts</i>	<i>Expenditures chargeable against ordinary receipts</i>
1915.....	\$697,910,827	\$760,586,802
1916.....	782,534,548	741,996,727
1917.....	1,124,324,795	2,086,042,104
1918.....	4,180,425,156	13,791,907,895
1919.....	4,654,380,899	18,952,141,180
1920.....	6,704,414,437	6,141,745,240
1921.....	5,584,517,045	4,891,275,319
1922.....	4,103,596,531	3,618,037,797
1923.....	3,847,045,683	3,647,647,849
1924.....	3,884,041,142	3,404,295,067
1925*.....	3,780,148,684	3,529,643,446

*The figures for 1925 are preliminary and subject to later adjustments. Close comparison with preceding years for which the figures are final is therefore not possible.

The reduction in expenditures since 1920 is clearly apparent but if one includes in the comparison the year 1919 it is possible to contend that there was a reduction in the last year of the Democratic administration, amounting to \$12,-

810,395,940 while the reduction in the five years since 1920 has been only \$2,612,101,744 or one-fifth as much. Such an observation would be technically accurate but it would be easy to draw an unfair inference from it. The writer is not at all concerned with political credit but is deeply anxious to make it clear that with the exception of certain of the war and post-war years federal expenditures have been steadily rising.

The following figures make this evident:

<i>Fiscal Year</i>	<i>Total expenditures chargeable against ordinary receipts</i>
1890.....	\$318,040,711
1900.....	520,860,847
1910.....	693,617,065
1915.....	760,586,802
1920.....	6,141,745,240
1925.....	3,529,643,446

In 1916 the last pre-war year, expenditures were \$741,996,727, and in 1925 they were \$3,529,643,446 or 4.75 times as much. For years the trend has been upward. After the War there was a sharp drop that has continued, but that has already lost much of its momentum. The reasons are not hard to find. A rising price level since 1896 is partly responsible, but it is interesting to notice that in the period of falling prices from 1873 to 1895 federal expenditures persistently increased. An ever growing pressure on the federal government to render more service to a larger number of people in an exceedingly complex civilization are the leading causes.

REDUCTIONS IN EXPENDITURES ANALYZED

We now come to a second observation. The important reductions undoubtedly made have appeared chiefly in connection with war activities. These have very naturally and very properly been curtailed. Such reductions should continue and will doubtless be evident, although to a diminishing degree, for several years to come. A few illustrations taken from the report of the Secretary of the Treasury for 1924 and four other Treasury statements will make this clear:

	1920	1925
Purchase of obligations of Foreign Governments—	\$421,337,028	None
Operations in special accounts:		
Railroads	\$1,036,672,157	\$7,204,992
War Finance Corporation	228,472,186	42,901,758 (Excess of credits)
Shipping Board	530,565,649	30,304,859

Federal expenditures in 1925 were over \$2,600,000,000 less than in 1920 but the four accounts in the above table are responsible for a large part of the reduction.

The significance of these items is, of course, realized by the Secretary and he accordingly points out in his report for 1924 that in addition to these sav-

ings there have been very important ones in the regular administrative expenditures each year. He notes that the total of this sort of expenditure was only \$1,833,000,000 in 1924 as compared with \$3,232,000,000 in 1920, a reduction of about \$1,400,000,000. He very properly indicates the amount of this that is to be attributed to economies in the War and Navy departments, to which we add those of the Treasury department and the Post Office department in the following:

	1920	1924	Reduction
War department	\$1,610,587,380	\$348,629,778	\$1,261,957,602
Navy department	736,021,456	332,249,136	403,772,320
Treasury department	322,315,627	137,411,205	184,904,422
Post Office department	50,049,295	186,789	49,862,506

Total.....\$1,900,496,850

One can readily understand that large reductions should have occurred in the expenditures of the War department and of the Navy department. By 1920 they had not been able completely to reduce their war personnel and activity to a peace basis, but by 1924 this should have been largely accomplished. A decline of \$1,261,957,602 in the one case and of \$403,722,320 in the other are not surprising. In fact a failure to reduce by some such amount would have been a proper cause for severe criticism.

The Treasury department account is not quite so clear. Its war activities also were numerous and a considerable reduction in its expenditures after the War was to be expected. Also by 1924 there had been set up a separate Veteran's Bureau account whose expenditures in 1920 were included with those of the Treasury department. In 1924 this amounted to \$409,120,863. In addition to this, allowance must be made for a change in accounting method. Prior to 1922 refunds of customs and internal revenue receipts were included under "Treasury department" but beginning with 1922 appear in a separate account. For 1922 these refunds amounted to \$82,826,000; for 1923 they were \$154,015,000; and for 1924 the amount was \$147,786,000. Thus, if proper allowance is made by putting the two years 1920 and 1924 on a more definitely comparable basis, we may add to the \$137,411,205 charged to "Treasury department" in the latter year, the amount that under the former accounting methods would have been paid by that department for war risk insurance. Also there should be added the \$147,786,000 of refunded customs and internal revenue receipts which were "Included under Treasury department prior to fiscal year 1922" but appear in a separate account thereafter. Or if the accounting method prior to 1922 was unsatisfactory then the proper amount under these two headings ought to be subtracted from the \$322,315,627 charged to the Treasury department in 1920, before any comparison is made. We may also point out that for the fiscal year 1925 the Treasury department expenditures were given as \$128,232,421, and refunds of customs and internal

revenue receipts for that year amounted to \$170,697,925.

Similar care should be used in examining the figures for the Post Office department. There is an apparent reduction of nearly \$50,000,000 in 1924 over 1920. But allowance must be made for another change in accounting practice. We find that the item "Postal deficiency" was "Included under Post Office department prior to fiscal year 1922" but is given separately thereafter. In 1923 this item was \$32,526,914, in 1924 it was \$12,638,849 and in 1925 it was \$23,216,783.

We have stated these figures carefully and without any thought that the changes in accounting practice are unwise. We are quite ready to assume that an improvement has been made. Also no attempt has been made to adjust the figures in order that an accurate comparison may be made. Accounting is altogether too intricate for an outsider and a layman to undertake such a task. Yet it is highly important to point out that the figures as they stand are not accurate for purposes of comparison and that if properly adjusted they would show a very different situation.

This comparison may be carried still further. By examining the expenditures of the War and Navy departments over a period of years it is made clear that even these departments are now spending far more than in pre-war years. It should be noted, however, that some of the following figures do not quite agree with the ones previously given, being taken from another page in the report. As the Secretary of the Treasury points out (Annual Reports, 1924, page 375) the first ones are for various reasons a little larger. This fact, however, in no way affects the general position taken, which is that the expenditures of these departments are still much larger than before the War in spite of any economies that have been introduced.

Fiscal Year	Expenditures of	
	War Department	Navy Department
1910.....	\$189,823,379	\$123,173,717
1915.....	202,160,134	141,835,654
1916.....	182,139,305	155,029,426
1924.....	348,606,247	324,129,998
1925.....	361,887,888	346,142,001

Three facts stand out in this table. First is the steady upward trend for both departments (war and early post-war years being omitted). Second, the expenditures of the War department were almost twice as much in 1925 as in 1916, the last pre-war year, while those of the Navy department were over twice as much. Third, both departments spent more in 1925 than in 1924. Since the figures for 1925 are taken from a preliminary statement adjustments may later be made that will call for a slight modification of interpretation. It seems improbable that any large changes will be made.

This brings us to our third comment. Many of the ordinary expenditures of the government are persistently rising. We have noticed that even the War and Navy departments are spending more

than in pre-war times and the above table shows a gain in 1925 over 1924. But this tendency is still more noticeable with other departments. Observe the following:

EXPENDITURES BY DEPARTMENTS OF

Fiscal Year	State	Justice	Interior
1917.....	\$ 6,169,316	\$10,566,401	\$216,415,516
1918.....	9,892,898	12,964,628	244,556,893
1919.....	20,766,400	15,717,022	288,285,627
1920.....	13,586,024	17,814,398	279,244,660
1921.....	8,780,796	17,206,418	357,814,893
1922.....	9,666,571	17,888,828	331,814,027
1923.....	15,463,276	23,521,485	354,623,058
1924.....	14,669,456	21,134,228	328,227,697
1925.....	15,054,408	23,495,738	302,440,633

Fiscal Year	Agriculture	Commerce	Labor
1917.....	\$ 29,547,234	\$11,689,792	\$ 3,852,116
1918.....	42,870,188	12,833,808	5,469,268
1919.....	39,246,454	15,589,514	12,942,558
1920.....	65,546,293	30,010,737	5,415,358
1921.....	119,837,759	30,828,761	8,502,509
1922.....	142,695,844	21,688,014	6,227,471
1923.....	128,745,677	21,783,508	7,241,466
1924.....	141,116,440	21,429,678	6,620,052
1925.....	164,644,283	25,782,961	9,677,841

Only a hurried glance at this table is needed to impress one with the persistence of the increase in all of the departments listed. State, Justice, Interior, Agriculture, Commerce and Labor all show the same trend, some more than others, but all upward. Several of them reduced their outlays just after the War, a part of which reduction was due to the fact that they had assumed certain war duties which could be eliminated. In each such case the downward trend has slackened. In one, the State department, there is a pronounced upward swing, while the departments of Justice, Interior, and Agriculture are spending far more than before or even during the War. All listed are costing us more than in the pre-war years, some of them very much more. The net result as shown in a previous table is that the total expenditures announced for 1925 were greater than those announced for 1924. Even ordinary, general expenditures had grown by several million dollars.

This increase in the ordinary expenditures of government must now be considered in connection with the reductions that have been made in many directions. Apparently, the contraction of activities directly and immediately traceable to the War cannot proceed indefinitely though some further economies can and should be made. But the downward trend in many directions now seems to be about offset (in 1925 more than offset) by a rise in ordinary expenditures. That the limit in economies is nearly reached with the War and Navy establishments seems apparent. At any rate their expenditures in 1925 were greater than in 1924 and strong protests against any reduction of their appropriations in 1926 are coming from both these sources as well as elsewhere. Also the criticisms of the economies enforced by the Controller General of the Budget, Mr. McCarl, are becoming more and more vigor-

ous. We need not attempt to forecast the outcome of these particular struggles but they make it clear that economies are increasingly difficult even with the large amount of pressure and publicity accompanying the movement. The time seems to have come when total expenditures will again increase rather than diminish.

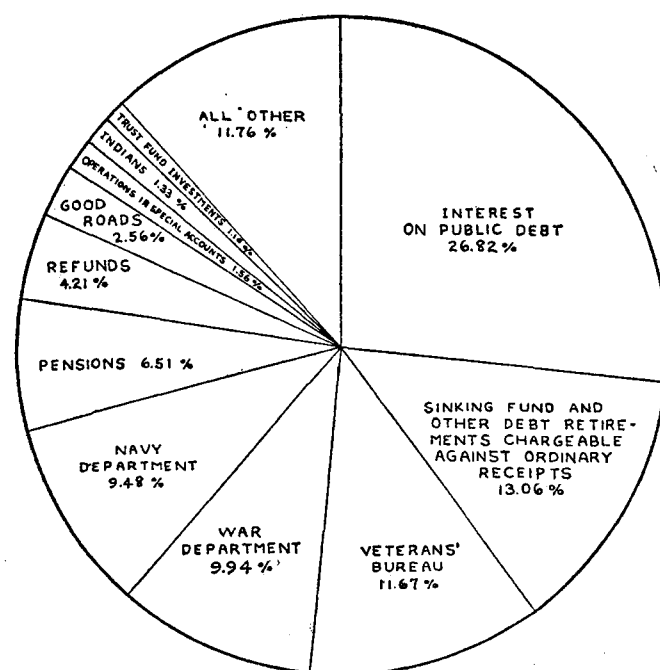
DIRECTION OF FEDERAL EXPENDITURES

A fourth comment is on the amounts expended by the federal government for different purposes. The first helpful picture of this is the one given in the following diagram taken from the Annual Report of the Secretary of the Treasury for 1924.

GOVERNMENT EXPENDITURES CHARGEABLE AGAINST ORDINARY RECEIPTS

FISCAL YEAR ENDED JUNE 30, 1924.

TOTAL = \$ 3,506,677,715



Up to this point we have been noticing items that are included in the left half of this chart. It is time to give attention to the right half, especially to the amounts spent for interest and sinking fund. It will be noticed that interest charges, which were \$940,602,912, were 26.82 percent of the total, while debt retirement, which amounted to \$457,999,750, was 13.06 percent. The two combined were \$1,398,602,662 or 39.88 percent of the total expenditures chargeable against ordinary receipts. But in addition to the nearly \$458,000,000 retired in this manner there are two other sources from which funds for debt retirements were secured, but which are not separately shown on the chart. "Surplus" furnished \$505,000,000 and "Reductions in the net balance in the general fund" furnished another \$136,000,000. The three combined total \$1,099,000,000 for 1924 and for 1925 were \$734,619,000. Both of these figures are for gross debt and so are a little larger than the ones given later.

Probably the first reaction to this diagram and the accompanying data is to notice that we retired over one billion dollars of the debt during 1924 and over \$734,000,000 in 1925—large amounts. But a second and more sober thought follows. In 1924, \$940,602,000, or nearly one billion dollars (in 1925 the corresponding amount being \$881,806,000) was still being spent on interest charges alone. In 1916 our total federal expenditures were only \$741,996,000 but in 1924, only eight years later, merely the interest charges on the debt were over \$940,000,000 or \$200,000,000 greater than the total expenditures in the earlier year. In less than a decade interest charges have become the largest single item in the budget as it is arranged in this diagram and amount to far more than the total budget at an earlier date.

GROWTH AND SIZE OF THE FEDERAL DEBT

If our previous analysis has been correct, we are now in a position to draw certain conclusions. War expenditures and post-war expenditures growing out of the War, have been declining but this decline will soon end, if it has not already done so. Other expenditures of the government are growing and will doubtless continue to grow in the future. The net result is that before long total expenditures must again increase. (The preliminary figures for 1925 given above indicate that the increase has actually started.) With debt charges so large it becomes important that as rapidly as possible the debt be eliminated. If this is done the debt can be discharged in large part within a few years. Then taxes can be reduced or, if not, the existing taxes can be used to meet other public needs and an increase in taxes can be avoided or at least postponed. Our fiscal problems centre around this debt burden more than anywhere else.

Let us look at the debt. On successive dates it has been as follows:

Date	Amount of Interest bearing Debt	Increase (+) Decrease (-)
June 30, 1916.....	\$ 972,000,000	
Aug. 31, 1919.....	26,349,000,000	25,377,000,000 (+)
June 30, 1920.....	24,061,000,000	2,288,000,000 (-)
" " 1921.....	23,737,000,000	324,000,000 (-)
" " 1922.....	22,711,000,000	1,026,000,000 (-)
" " 1923.....	22,008,000,000	703,000,000 (-)
" " 1924.....	20,982,000,000	1,026,000,000 (-)
" " 1925.....	20,211,000,000	771,000,000 (-)

Note: These figures include only interest bearing unmaturing debt.

First to catch the attention is that most of the debt is due to the late War, and that on the latest date given it still amounted to \$20,211,000,000, or over twenty times what it was in 1916, and that it is about \$180 per capita. Next to be noticed is that the amount is declining year by year. In 1922 and 1924 this reduction was over one billion dollars for each year. Unfortunately in 1925 the decrease was

less than in 1922 and is also very much less than in 1924.

Regarding the origin and nature of this debt and the importance of its speedy liquidation, there is but little difference of opinion. With the exception of less than a billion dollars, it arose during the late War; the funds raised by the sale of the bonds were not used productively, but for war purposes; the burden of the War was not shifted by the world to the shoulders of later generations, but was borne while the War was going on; and at the present time there are not productive assets behind this debt, except the amounts due from our associates in the late War.

On these fundamental principles there seems to be agreement, but in connection with their application, serious differences appear. It is held by some, including Secretary Mellon, that liquidation of the debt might be too rapid and that too prompt a repayment might be injurious to the economic life of the country. In support of this view he and others have advanced certain contentions that we shall next examine in some detail. But before doing so a few comments should be made on the amounts due our government from abroad.

WILL PAYMENTS BY FOREIGN COUNTRIES HELP?

Our policy toward the liquidation of our federal debt will be definitely influenced by the opinion we may hold regarding collections of amounts due from the foreign governments who owe us. Let us take figures for 1924 as a basis for comment. On June 30, 1924, our total interest-bearing debt was \$20,982,000,000. The principal sums due our government from foreign governments (on November 15, 1924) were \$10,559,900,000 and accrued unpaid interest, \$1,481,500,000 or \$12,041,400,000 for the two combined. These foreign debts were a little over 57 percent of our federal debt, and it is suggested by many that we rely on receipts from abroad to settle this \$12,000,000,000 of principal and accumulated interest and that only the remaining \$8,941,600,000 need be liquidated from taxation of ourselves.

If this view could be accepted without qualification, our problem would be simplified, though by no means solved, but there are many reasons why it cannot be disposed of so readily. A few of them must be noted.

First are the general arguments over the ability of the debtor countries to pay and of the United States to receive such large sums. Since the doubts on this which have been expressed by so many are challenged by others, we shall mention the uncertainty in the situation and pass on, noticing merely that Great Britain is the only country yet making important payments. This addition to her burdens is extremely serious for her while we have felt no strain because of our huge foreign loans.

Second is the relationship between the payments to us and the payments made by Germany on reparation account. France contends she can pay us only in case Germany pays her. England is insisting she will attempt to collect from the Continent only the amount she will pay us. Belgium according to the news despatches is definitely relying on German payments to furnish her with the amounts she will remit to the United States. How seriously such contentions are to be taken is not clear but they at least seem to cloud the situation. It is reported that certain English leaders consider the possibilities of payment by Germany of the amounts called for under the Dawes plan to be 50-50. This is a decidedly optimistic view. At any rate the uncertainties regarding payments by Germany are in the minds of many very great. By whatever amount they fall short of calculations, to that extent will difficulties develop in connection with payments to us.

However, our official view is that our various debtors can, must and will pay—that not a cent is to be deducted from the principal amounts due us. There is no possibility of presenting here in an adequate manner all that is involved but we can at least notice the settlements already made, assuming for the moment that they can and will be carried out. At the time this is written, settlements have been made with Great Britain and several minor debtors, and a tentative agreement has been reached with Belgium, subject to the later approval of the Belgian Parliament and our Congress. Also Mr. Churchill, Chancellor of the British Exchequer, with the authority of the British cabinet, has agreed to accept payment by France at the rate of two percent over a period of years provided that the United States will allow to France equally good terms. The French delegation headed by M. Caillaux has come and gone but without having conquered. How serious was the failure to agree with the American Debt Commission is not yet clear but we at least know that only a very small amount can be expected for five years to come. Moreover our confidence in larger payments after that time has been weakened rather than strengthened.

We are not here concerned with the propriety of the settlements made or to be made, nor shall we yield to the temptation to comment on them at length. Instead we shall note their significance for the purpose of our general discussion. It is to be remembered that our own debt includes a number of different bond issues, but the larger part of the debt bears $4\frac{1}{4}$ percent interest. Although some issues bear more and some less than this rate, we may notice that the \$940,602,000 paid out as "interest on the public debt" in 1924 was 4.27 percent on the \$22,008,000,000 interest bearing unmatured debt outstanding at the beginning of the year. From some source there must be raised each year the amount called for, and retirement of principal must be accomplished from sums over and above the

amount needed for interest payments. This means that if debt settlements call for an interest rate less than about $4\frac{1}{4}$ percent, either that difference will have to be made up from our own taxes or else some (or perhaps all) of the amounts paid us in settlement of principal will have to be thought of as meeting interest charges, leaving more of the amortization of the principal to be met from our taxes.

THE BASIS OF THE DEBT SETTLEMENTS

What has been the basis of the settlements to date? An exact mathematical computation along the lines just suggested would be complicated and for our purposes is not necessary. A brief reference to the general terms will do. The agreement with England was made at a time when the principal of the debt was \$4,600,000,000. This is to be gradually amortized but for the first ten years the principal outstanding is to bear interest at 3 percent, and for the remainder of the time at $3\frac{1}{2}$ percent. Several other small countries have settled on the same basis. Clearly from this group the interest payments will be considerably less than $4\frac{1}{4}$ percent. The settlement with Belgium is much more complicated. The principal sum due with accumulated interest at $4\frac{1}{4}$ percent was \$472,000,000 on December 31, 1924. Interest on this at $4\frac{1}{4}$ percent is over \$20,000,000 per annum. But subject to the approval of Congress, an agreement has been reached to reduce this amount in various ways. Interest on the pre-armistice debt of \$171,780,000 is entirely eliminated and only payment of principal is called for. Interest on the post-armistice debt accrued at $4\frac{1}{4}$ percent and unpaid, amounts with the principal to \$246,017,000. On this latter sum payments are to be made at the same rate as by Great Britain over a period of sixty-two years. If payments are made according to the schedule announced, they will apparently amount to only \$3,840,000 in 1926, increasing to over \$12,000,000 per annum in ten years. The maximum sum called for is \$12,868,000 in the thirty-second year. This may be contrasted with the \$20,000,000 mentioned above as necessary to meet merely interest at $4\frac{1}{4}$ percent on the face value of the debt. Also it may be contrasted with the amounts that would have been called for under an agreement similar throughout to the one with England. This would have ranged between \$16,400,000 and \$19,900,000.

Enough has been said about these debts. At the best they are an asset which must be written down from the \$12,000,000,000 at which we have been holding them to something very much less. In the minds of many their value has always been very dubious and settlements to date give considerable weight to this view. We have a debt of over \$20,000,000,000 against which foreign government debts to us have been held at a face value of over

\$12,000,000,000. It is certain that we cannot count on receiving the entire \$12,000,000,000 and also $4\frac{1}{4}$ percent interest on that sum. Its present worth on a $4\frac{1}{4}$ percent basis is far less than the figure we have been using, as is clearly shown by the settlements made to date. Officially we still declare that the principal sum will be collected in full but as a business proposition we are reducing these debts by adjusting interest. When to this fact is added the general uncertainty that payments called for can be offered or taken, the outlook becomes even more uncertain.

Let us again summarize. Federal expenditures last year—1925—were \$3,529,643,446 or nearly five times as much as in 1916. Reductions because of liquidation of war activities have about reached their limit. Ordinary expenditures when properly interpreted are increasing. Further economies through a general reorganization or otherwise are uncertain. Total expenditures will probably increase soon and in fact did increase in 1925. Our interest-bearing debt is \$20,211,000,000, and at an average rate of $4\frac{1}{4}$ percent will call for \$858,967,500 interest during the coming year. Interest and debt retirement combined account for nearly 40 percent of the annual budget. The debt has no productive assets behind it, except the foreign credits whose value is dubious. Settlements to date indicate that only a part of our interest payment may come from this source; that the present worth of these accounts is far less than the face value at which we have held them; and that it is by no means impossible that still less will ultimately be collected than the sums now demanded. Space does not permit further argument on the point but it is the conviction of the writer that little can be secured for some years from either France or Belgium, that Italy can never pay very much and that even England may not be able to continue at the present rate.

If the principal of the debt should be lowered at the rate of \$1,000,000,000 per year, it would take over twenty years to liquidate it in full. Before the late War there had for years been valid reasons for not paying off the debt which was then less than one billion dollars. Over \$700,000,000 of the bonds were held by national banks as security for their bank note issues. Payment of the debt would have meant the retirement of the bank notes or some other provision for securing them. (The federal reserve act of 1913 provided for this being done although to date no progress has been made.) Then, too, some of the bonds, the Panama Canal issues, had been sold for productive purposes and the need for retiring them was less. Now, however, the situation is altered. Most of the debt has no productive assets behind it. During the last five years reductions have averaged \$770,000,000 per year. This rate of reduction should certainly not be lessened and should be increased as much as possible.

Thus far we have given only the general reasons for reduction, reasons that apply to any large debt. But there are other reasons, particularly applicable to this debt and to them we shall next turn our attention.

WHAT IF THE PRICE LEVEL SHOULD DECLINE?

First is the possibility of a decline in the price level. It must be acknowledged that no one can predict future price movements with any great confidence. Not only is there a lack of complete agreement regarding price theory, but the advocates of any one theory, e. g., the quantity theory, are uncertain regarding such important matters as world gold output, velocity of circulation and other significant factors. Yet a few suggestions can safely be made. Since 1896 prices have been rising, particularly since 1915. This has been true not merely in countries not on the gold basis but also in the United States and in other countries which have never nominally abandoned the gold standard and which now quite clearly have it. Concentration of gold in these countries, changes in legal reserve requirements and the altered habits of the people are all involved. But the future may bring a change. Prices may begin to decline, in fact many authorities believe it probable that they will.

A brief statement of the reasons for this view should perhaps be given. Prices are an expression of the value of commodities in terms of the circulating medium or money, whose basis is gold in most of the countries of the world. But conversely prices are also an expression of the value of money in terms of commodities. Thus when prices rise the value of money is going down and when prices fall the value of money is rising. Anything that tends to make money abundant, or to lessen the demand for it tends to lessen its value and raise prices. On the other hand any influence that tends to make money less abundant or to increase the demand for it raises its value and lowers prices. This statement is unfortunately brief and lacking in refinements, but is adequate for our present need.

What are the possibilities of the near future? For the world as a whole gold output may not keep pace with the demands upon it, thus tending to depress prices. The return of many countries to a gold basis thus causing a greater demand for gold in many monetary systems would have the same influence. Drawing some of the gold from countries that have plenty, particularly the United States, would have a similar effect. (This movement, it might be mentioned, is already under way in an irregular manner.) Then, too, a general revival of business with a large output of goods would of course tend to lower prices. In fact the probabilities are in favor of a decline rather than a rise, so much so that it is sensible to assume the decrease and in practical affairs to plan for it.

Any one who recalls the last quarter of the nineteenth century, or who has read its economic history remembers and appreciates the meaning of a period of falling prices. When prices rise debtors are in a peculiarly favorable position. Loans can easily be repaid since goods can be sold for more and more as time passes, a fact of which particular advantage was taken by the German industrialists during the inflation period from the end of the War until the autumn of 1923.

But reverse the process. Let prices fall, and what happens? Debtors have obligated themselves to pay fixed sums of money as interest and in repayment of principal. A farmer whose land is mortgaged for, say \$10,000 at 6 percent must pay each year \$600 as interest and perhaps \$1000 to amortize the principal, a total of \$1600. With wheat at two dollars per bushel, only 800 bushels are needed for the purpose and the task may be easy. But let wheat decline in price to one dollar per bushel and 1600 bushels per year are necessary for debt charges. The burden has doubled, the task may be too great and bankruptcy be the result.

Notice the position of our government with a large debt, over \$20,000,000,000. With prices high the collection of interest and large amortization charges is a relatively easy matter. But if prices decline the task becomes more and more difficult even though there is no general change in the productivity of the country, in the number of physical units of each commodity that are turned out from farms and factories. A manufacturer of cloth selling at two dollars per yard can without serious strain pay the government, say \$10,000, each year in taxes but if prices decline to one dollar per yard his tax payments must be lower even if he sells as many yards of cloth as before. Everywhere the same situation would prevail, and the taxes would be harder and harder to collect. And this is entirely aside from any temporary difficulties that might arise from business failures during a period of industrial depression brought on by a price decline. Some expenses of the government would lessen with a lowered price level but the principal of the debt would remain the same.

OUR PRESENT BUSINESS PROSPERITY

This suggests a second reason why taxes should for the present not be lowered. With a few important exceptions business is now in good condition. Evidence of this will be given a little later, but the facts are so obvious that proof is really not needed. In a period of prosperity taxes can be more easily collected than in a period of depression, and advantage should be taken of our present favorable circumstances.

But why expect a change? Will not business continue active? Perhaps so, but probably not. In the past, periods of prosperity have been followed by periods of depression with a high degree of reg-

ularity. Without committing ourselves to any theory about the extent to which history repeats itself, we may at least be pardoned for saying that in time a reaction will follow the present activity. In fact we may properly make the suggestion without in any way indicating the time or the cause of the change.

Yet there is one influence to which special reference must be made. Settlements are being completed with various debtor governments. Receipts under these agreements will doubtless be less than many have anticipated but larger than in the past, since to date substantially nothing has been received except from Great Britain. But the larger the reparation payments by Germany, and the larger the payments to our government by the various debtor governments, the greater will be the alterations in trade, and the keener the competition in the world's markets. With these changes we may experience a business reaction, in fact we shall be exceedingly fortunate if we escape a serious slump and a prolonged period of depression until American industries can adjust themselves to the changes.

To some readers this position may seem inconsistent. We have pointed out the condition of prosperity that prevails in the United States. England is paying us over \$150,000,000 each year and we do not seem to be feeling any adverse effects from the receipts. If this is true why assume that there will be any bad results from payments by other countries? Is it not probable that larger payments can also be absorbed without strain?

In this instance as in others where the intricacies are so great it does not do for one to be too certain. Yet it must be remembered that to date the country as a whole has not actually been paid. Although England is remitting to our government with regularity, private loans are being made in such large amounts as to more than offset these payments. In 1924, new capital was loaned abroad by Americans to the amount of over \$973,000,000 and in the first six months of 1925 an additional \$437,266,000 of new capital was loaned to foreigners. This probably cannot and will not continue indefinitely. Interest payments on these loans will soon be so great that we may reasonably expect a reversal of the movement, net payments coming to the United States instead of going abroad. It is this change that we have in mind.

All this is said with a full realization that prophecies are exceedingly hazardous but with an equally strong conviction that so-called common sense as well as economic analysis point to a period of strain ahead. Cognizance is also taken of the views of those who believe as do the writers of the preliminary study *The Inter-Ally Debts and the United States* published by the National Industrial Conference Board, that we can take most of the payments due us in the form of tropical foodstuffs, and certain non-indigenous raw materials. Lack of space forbids anything more than a record

of doubt as to our ability to pass through such an adjustment without a strain. Prices may and probably will decline, business reactions will come for one reason or another. Federal debt payments should certainly be made as rapidly as possible while conditions are so favorable even if there were no other arguments for doing so. But there are other considerations that should not be ignored. Our debt is heavy now but if a candid survey of the future indicates that new and heavy expenditures may be impending, particularly of a sort that may call for large bond issues, prudence would suggest that preparations should be made for such contingencies. And preparation in this instance means eliminating all or most of the existing debt. Such a policy would strengthen federal credit, permit new bond issues at lower rates than would otherwise prevail and in general would be of financial advantage.

INCREASING FEDERAL BURDENS

Reference has already been made to the growth in federal expenditures even before the War. To what has been said about this increase from 1890 to 1915 should now be added that there was a growth not only in absolute amount, but in per capita figures. For the years just given the ordinary expenditures per person were, 1890, \$5.05; 1900, \$6.84; 1910, \$7.53; and 1916, \$7.27. Moreover, the increase was more than enough to allow for the rise in prices during most of that period. During the twenty-one years from 1895 to 1916 wholesale prices as shown by the Bureau of Labor index number rose 42 percent, while government expenditures rose 113 percent or more than doubled. Even per capita expenditures rose 40 percent during this same period.

It is not unreasonable to expect such increases to continue. "More business in government and less government in business" is a slogan that appeals to those who adhere to a laissez faire philosophy without a realization of twentieth century developments and problems. Population is becoming more dense, contacts and hence opportunities for friction between individuals and groups are increasingly numerous, life is more intricate, new and baffling questions are pouring in upon us for solution, group action on many issues is each year more imperative. It is not a matter of wanting or working for socialism or for any other form of socialization. Some who are most impressed with the trend are most concerned over the ability of the community to handle wisely the duties thrust upon it. But personal preferences and prejudices will not decide the matter. Like one writer's conception of the growth of democracy the tendency we are describing seems to be "irresistible."

Many of the problems referred to are local or state rather than federal and in this discussion are of no immediate or direct concern. Indirectly, they

are important here since any addition to state or local burdens means a lessened capacity with which to make federal payments. Yet many of the problems are peculiarly federal. They have such ramifications across state boundary lines, they have so broad a base, that only national action is adequate. And with their growth an increased amount of supervision and control and in some cases government ownership and operation are involved. In every case this means larger and larger expenditures. A moderate amount of supervision means a moderate expenditure, a larger amount of control calls for more funds, while government ownership means a heavy outlay for acquisition of properties.

It is this general trend and some of the possibilities of the near future that should be a matter of concern. In spite of strenuous efforts of conservative administrations the duties of the federal government are growing. If the trend of many years both at home and abroad has any significance at all these duties and the consequent expenditures will continue to grow. But in addition to this systematic steady increase in obligations there are several special problems that may come to a head at almost any time. No matter what one may think and say about socialism or socialization, and regardless of one's opinion of a government's capacity to conduct a business enterprise it is folly to ignore certain impending issues. So strong is the chance that they will soon be upon us that common prudence demands that our finances be made and kept ready. New and heavy obligations may have to be assumed at any time. The heavier the existing debt, the more difficult will be the new issues and the higher the rate of interest that will have to be offered.

THE RAILWAYS AND THE FEDERAL GOVERNMENT

Let us notice briefly the railway situation. But before doing so let it again be emphasized that the discussion does not have anything to do with personal preferences. As a matter of fact the writer is strongly prejudiced in favor of private ownership and operation of railroads, especially in the United States and looks with regret on their possible acquisition by the government.

Probably few American readers are conscious of the extent of state ownership of railways throughout the world or of the increase of state over private ownership. The following figures for 1913 and 1920 are therefore enlightening. Those for 1913 are from *Archiv für Eisenbahnwesen*, 1913, pp. 520-523, published by the Preussisches Ministerium der öffentlichen Arbeiten, as given by Carl D. Thompson in *Public Ownership*, pp. 75-77, and have been modified by the writer of this study by the omission of the United States from the statistics. The figures for 1920 are from Professor Jones's *Principles of Railway Transportation* and are taken

by him from the records of the Bureau of Railway Economics.

MILEAGE OF STATE AND PRIVATE RAILWAYS

	State		Private	
	Mileage	Percent.	Mileage	Percent.
1913.....	224,273	52.1	206,183	47.9
1920.....	259,231	60.8	167,179	39.2

These figures are not closely comparable. The totals for 1913 are greater than for 1920 since a number of countries have been omitted because of lack of data. Yet the trend is clear. State ownership has grown and rapidly. In 1913, the railways of Great Britain, Spain, Greece, European Turkey, and China were 100 percent privately owned. By 1920 only Great Britain and Spain in Professor Jones's list had all of their railways privately owned while others had increased the percentage of state owned lines. The most important of the latter, at least to American readers is Canada whose railways were over 94 percent private in 1913, but were only 42 percent private in 1920.

It will be pointed out that this situation and trend elsewhere are final proof of nothing at all and such a contention is in part correct. It is merely highly suggestive but it may be that a part of the reasons for public ownership elsewhere may be found in the United States as well.

But what is the situation in our own country? With trifling exceptions (such as the 47 mile Panama Railroad and the 1000 miles in Alaska partially completed) we have always had privately owned and privately operated lines. During the recent War the railways were operated by the government but are now again in private hands. Undoubtedly public sentiment is at present opposed to either government ownership or government operation.

Yet it must be remembered that we are not discussing either our preferences or our hopes. What is the trend? It is not entirely clear, but there are a few signs that should not be ignored. They point emphatically to the necessity of greater federal intervention, greater even than at present which is far greater than in the past. Since the passage of the Interstate Commerce Act in 1887 control over the railroads has grown, especially with and since the passage of the Hepburn Act in 1906. Now we have complete federal control of rates and security issues and over many phases of service.

If this had solved our problems there would be less to say. But the problems are not solved. Within the year the greatest failure in history has occurred—that of the Chicago, Milwaukee and St. Paul—and this comes after a series of other disasters including the New York, New Haven and Hartford, the St. Louis and San Francisco, the Missouri, Kansas and Texas and others—all within a comparatively few years.

There are at least three important influences at work making for greater federal interference with the railroads, a movement that may in time go so

far as ownership and operation. One is the process of consolidation of companies and of coöperation between companies. There has been voluntary consolidation in the past but now under the Esch-Cummins law this movement is encouraged by the government and may at some time in the future even be made compulsory. The need for joint use of terminals and equipment and for coöperation in numerous other matters is more and more clearly understood. But these consolidations and this closer coöperation are gradually making over a large number of somewhat independent lines into a closely knit group. As the years pass these lines are naturally and properly working more and more in harmony—are becoming for some purposes a single group with an investment usually said to be about \$20,000,000,000. As this process goes on the public will be more and more concerned and more fearful of the power of such a group. Demands for greater control may be expected and increased protests from the railroads will be heard. As yet the trend is toward greater supervision.

A second influence is the financial one. In spite of the specification in the law that the railroads should be allowed to earn $5\frac{3}{4}$ percent on their aggregate value it is not easy to bring this about. Increases in rates often mean a decline in traffic. Competition from water routes and from motor trucks and motor buses must be considered. In issuing new securities the railroads must face the competition of the higher yields offered on many other investments, notably on many foreign securities. Little new mileage is being built and it is by no means clear that as a long run matter the railroads can successfully handle their own financing.

If the railroads find it difficult to raise funds from investors by offering moderate returns on bonds and stock they must, of course, offer higher yields, and to meet these charges rates must be raised. But there is a point somewhere beyond which higher rates will curtail traffic and mean reduced earnings. Probably no one can tell in advance just where this would occur but there is somewhere such a limit. When it is reached there will be a strong tendency to raise the money for the railroads by issuing government bonds, for any general failure of the railways would be a matter of grave public concern. But the public would not approve the uncontrolled use of public funds by private corporations. Some hint of the difficulties for many roads is to be found in the current discussions of the St. Paul failure and of the proposal to pool increased earnings that may come from an increase of five percent in freight rates for the railroads of the Northwest. It is suggested that these be pooled for the benefit of the weaker roads, a plan that would knit the western roads still more closely together.

There has been a third influence of importance. At times in the past labor difficulties have been so acute as almost to cause a breakdown in transportation service. This was particularly the case in 1916

and led to the passage of the Adamson Act. Later difficulties have been persistent, although not so spectacular, and cause grave doubt regarding the ability of the roads to solve their problems with their employees.

Any one who would flatly prophesy government ownership or operation of the railroads of the United States in the near future would be rash. Such an outcome may never occur or may be delayed for many years. Yet there is a possibility or more than a possibility of it. More than one critic has taken the view that the Esch-Cummins Act is a final trial at private management of the railroads and that failure to operate successfully under this law will in time be followed by government operation and perhaps ownership.

But while probably no careful economist would risk a forecast of the outcome the possibilities are serious. One may deplore it, he may work against it, he may fear the inability of the government to manage the railroads efficiently. Yet these forebodings are not sufficient in themselves to meet the three problems of monopoly, finance and labor to which we have referred in addition to such other difficulties as the motor truck. If the government is ever compelled to take over the roads it means some \$20,000,000,000 of financing, or the assumption of a new debt fully as large as the present one. If there is still a large debt outstanding when a proposal for so great a new issue is presented the interest rates to be offered will of necessity be higher than if there were not already a huge debt. Common prudence demands the rapid elimination of existing indebtedness.

COAL AND THE GOVERNMENT

One could wish that the railroads furnished the only problem that might call for a large outlay of federal funds, but he would hope in vain. The coal industry is in a deplorable condition. As this is being written the anthracite strike is on and it is feared by many that the bituminous coal fields may also become involved. In any case the situation is such that federal action may become necessary soon. Perhaps not this year, nor next, nor for some years to come, but increased social control of the coal industry is probable. While the present crisis is not peculiar to the United States and is aggravated by the business depression that still prevails in much of the world, there is no reason to think of it as temporary or as one that will solve itself. It is not temporary and it will not solve itself. What may happen is suggested by recent developments in Great Britain where a conservative government presided over by an experienced business man has just pledged government aid to the coal industry to carry it through its troubles.

British difficulties are particularly serious at present, but we need not conclude that they are peculiar. Instead they are merely an outstanding

illustration of a world trend—a trend that is not accidental and that shows no sign of lessening. Large scale production is on the increase, consolidations and combinations are constantly being effected, the economic machine is becoming more closely knit together each year. As time passes the necessity for smooth uninterrupted operation becomes greater and the effects of a breakdown more serious. Nor is an interruption a matter of concern only to those directly engaged in the industry. Instead it concerns all of us. Faced with an emergency the British government is at present spending at the rate of about £10,000,000 per year to keep its coal mines in operation. What we may have to do in five years or in ten years no one can at present say. The sensible plan is to be ready for any contingency that may arise.

Every attempt has been made in the preceding paragraphs to present the condition of the railways and the coal mines in a conservative manner. Government ownership or operation or government subsidies bring their own acute problems, perhaps worse than any we now face. It is not a question of preferences or prejudices, but of facts that may compel action. Such action was necessary when our federal government took over the railroads in 1917, by the Canadian government when it recently acquired a large additional railway mileage, by the British government when recently confronted by a crisis in the coal industry. What we may face soon or just what we ought to do need not be argued here. But we should be ready in our thinking about such matters and with our finances.

OUR DEBTS AND ANOTHER WAR

If some readers feel that the suggestions just made are fanciful and may be ignored what will be their reaction to the possibility of war? We are arguing in this study for a reduction of the federal debt because of its size and consequent burden, because there are no productive assets behind it, because ordinary expenses are constantly growing and because at any time the federal government may have to assume new and heavy burdens. But it must not be forgotten that after all most of the debt originated in war. A century ago it was our policy to eliminate the federal debt which had grown so rapidly in the War of 1812, and by 1835 the debt had disappeared. A little later the wisdom of such a policy was apparent when the Civil War presented its tremendous burdens. The debt arising out of that conflict was lowered but not entirely paid off, there being little reduction in its amount from 1887 to 1898. The Spanish-American War again increased it and again there came a slight reduction, but no effort to pay it off completely. As already pointed out most of the bonds were in the hands of the national banks and had been deposited by them at Washington as security for their note issues. To retire the federal debt would have been good fiscal

policy, but would have disturbed the national bank note issues and created monetary problems. Although the interest-bearing debt was nearly \$1,000,000,000 this amount was not very large—about ten dollars per capita—and no serious harm was done by continuing it.

From the Civil War to the present has been only about sixty years. Within that time the United States has been involved in two serious wars and minor skirmishes such as the one with Mexico in the Wilson administration and the one with the insurgents in the Philippines. Many suggest paying off the debt over an extended period—some urging fifty or sixty years. The fallacy of arguing that we have placed on the people of a later day the burden of the late War has been discussed. We bore that burden at the time. What we can but should not do, however, is to hand over to them a heavy and highly involved fiscal situation for solution with the probability that they may have in addition to it war burdens of their own.

So many writers have elaborated on the high percentage of our federal expenditures that go for interest on war debts accumulated in the past and for military outlays in the present that repetition here seems unnecessary. Also no space need be given to the possibilities of future war. There is a World Court to which the United States may adhere in the near future and a League of Nations in which we should have accepted membership from the start, and to which we should now belong. But the probability of war has not disappeared. This is no condemnation of the League or of the Court whose value as agencies for peace are beyond question and whose services should be utilized in every possible way but merely a sane recognition of the numerous causes for war, of the complexity of world affairs, and of the powerful forces that make for conflict. The new agencies will work effectively for peace, but they are not panaceas. Wars are not tragedies of a past age. They are the probable happenings of the future, and no one knows how soon. At the moment of writing the so-called successful operation of the Dawes plan and the discussions of a security pact seem to have eased the tension in Europe. But France is at war in Morocco and in Syria; England and Turkey are in serious danger of conflict over Mosul; while most of the Western powers, including the United States, are by no means certain that war in the Far East can be avoided.

So threatening are the possibilities, so great are the chances of the United States becoming involved that one could share the pleadings of the militarists for a larger and more powerful army and navy if it were not true that the very measures they advocate would increase the chances of war—changing it from a probability into a certainty. The elimination of the debt would furnish no temptations to rattle the sword. No war would be hastened, no friction created. But if war should come federal credit would be stronger, taxation could be increased more

readily, bonds could be sold on far better terms than with a debt of \$20,000,000,000 or with one of \$10,000,000,000 or with any debt at all.

DO PRESENT TAXES HAMPER BUSINESS?

To much that has been said in the preceding pages many will agree. It is quite possible in fact that the Secretary of the Treasury would not deny the majority of the statements made. But he contends, as do many others, that there are numerous reasons for tax reduction to which we have made no reference. It is argued that business is hampered by existing burdens, that funds are being used unproductively, that important enterprises are unable to secure capital which is instead diverted to the purchase of tax-exempt securities, that the federal government receives less from the existing high rates of taxation than it would from lower rates, that high taxes mean high prices. These contentions must be examined. But before doing so it must be admitted that they are important if true. Modern industry is complex and much depends upon its smooth operation. It is increasingly necessary to keep our economic machine running smoothly. More might be lost through a slowing down of its operation than through a considerable delay in repayment of the public debt, and if it can be proved that existing rates of taxation are causing a serious slackening in economic activity then there is a strong argument in favor of reduction.

A reasonable approach to the question is twofold. First, to notice the facts and second, to examine the reasons for whatever facts we may discover. This is the method we shall follow.

There are a number of tests that can be applied. One is the judgment of qualified observers regarding the general business situation. Is it on the whole good or bad? Herbert Hoover, Secretary of Commerce, begins the foreword of the third issue of the Commerce Yearbook, 1924, with the words:

"The American people have little right to complain about our economic situation during the year 1924."

This was said of 1924. Federal taxes were later lowered, both normal taxes and surtaxes, but the spring of 1925 saw no sudden upturn in business. Instead there was a period of uncertainty and hesitation. By the middle of the summer a revival began and recent judgments are optimistic. For example, in July wide publicity was given to a nation-wide survey of business by the National Cash Register Company whose general tenor was summed up in the sentence: "A note of optimism is stressed in the reports from almost every state." Late in August the Federal Reserve Board's summary on business conditions was decidedly favorable and its survey made public on September 11, was interpreted in the Associated Press Despatch by the comment: "Government economists asserted there could no longer be any doubt as to the general improvement

throughout the commercial world, and insisted that the progress thus made in the United States had been greater than in any other major country." These are but a few of the many comments on business and they tend to show that conditions are good and are now improving.

Still another expression—a statistical one—may be added. The Federal Reserve Board compiles a series of business indices in which it uses the monthly average of 1919 as a base or 100. For the first seven months of the year 1925 only two of their numbers average less than 100 or the activity of 1919. They report factory employment as 95 and wholesale trade as 80. Their other averages for the seven months of 1925, however, are as follows: production in basic industries, 118; factory payrolls, 107; building contracts awarded, 170; railroad car loadings, 122; department store sales, 129; department store stocks, 135; and bank debits outside of New York City, 121.

The year 1919 used as a base was a year of activity. When nearly all of these indices for 1925 are so much above the 1919 base it is difficult to take seriously the suggestion that business is being held back by taxation or by anything else. It is frequently alleged that high taxes are hampering business, but proof, as contrasted with mere assertion, is hard to find.

Secretary Hoover thinks we have but little reason to complain about conditions in 1924. Business hesitated in the spring of 1925, but for the first seven months was considerably above the active year 1919 and is now definitely moving ahead. How long this may continue we do not know but there is no basis for contending that high taxes are hampering business. Whenever and wherever there is difficulty other causes are at work, other influences are making themselves felt.

CAPITAL IS ABUNDANT

A second contention is that business is retarded by a difficulty in securing capital. Here again the facts do not support such a view. The United States department of Commerce in its Survey of Current Business publishes an index number of security issues, using the monthly average of 1913 as a base or 100. In the year 1922 the average for corporate security issues was 208, in 1923 it was 219 and in 1924 it was 196. For the first seven months of 1925 the average was 241 or about two and one-half times that of 1913. Long term municipal loans during the first six months of 1925 were 350 percent or three and one-half times the average of 1913. The monthly average of new corporations with 1913 as 100 were as follows: in 1919, 613; in 1920, 725; in 1921, 385; in 1922, 406; in 1923, 453; in 1924, 346. For the first seven months of 1925 the index number expressing the monthly average is 463. Leaving out 1919 and 1920 which were years of inflationary activity these figures do not

suggest any great hesitancy to go ahead. Instead there seems to be an eagerness which waned somewhat in 1921, but even then the new incorporations were nearly four times those of 1913. For the first seven months of this year they have been 4.63 times as great as in the base year.

Let us express new security issues in absolute amounts, giving "new capital" which means that re-funding issues have been excluded. For a period of years they are given by The Commercial and Financial Chronicle as follows:

1920	\$3,634,834,192
1921	3,576,738,412
1922	4,313,362,798
1923	4,304,425,893
1924	5,569,689,190
* 1925	3,790,069,240
** 1925	6,480,000,000

* Actual for seven months.

** Twelve months if rate for the first seven months is continued.

Just how any one can reconcile these figures with the charge of difficulty in securing new capital it is hard to say. The volume of new security issues sold in the United States each year is stupendous and is rapidly increasing. Even after due allowance is made for the rise in the price level, the figures are large ones. Each year they have grown until in the first seven months of this year the total was nearly \$3,800,000,000. If the same rate is maintained for the rest of the year, 1925 will show a total of nearly \$6,500,000,000. Certainly there can be no claim that there is any shortage in the aggregate amount of capital available.

Presumably the reader understands that the figures given are only those of new security issues—stocks and bonds offered for sale. There are not included a vast volume of mortgage loans, reinvested earnings and other items that are a part of the aggregate savings of the country. The actual total is a much larger amount than the figure we have given.

For the year 1923 Professor David Friday estimated that "we added some \$12,000,000,000 to our national wealth through savings during the past year." It will be noticed that in this same year, 1923, the security issues given above were about \$4,300,000,000 or approximately 35 percent of the total savings of the year. If Professor Friday's estimates are correct and if the same proportion between the security issues and total savings was maintained in 1924, total savings for that year were nearly \$16,000,000,000. If as has just been suggested the security issues in 1925 amount to \$6,480,000,000 and this same 35 percent ratio is maintained total savings for the year will be over \$18,000,000,000.

Such a conclusion would be a hasty and doubtless a very inaccurate one and the suggestion is made only for the purpose of emphasizing the really enor-

mous amount of new capital that is available each year.

THOSE TAX-EXEMPT SECURITIES

But this does not settle the question of the direction of investments. Are tax-exempt securities taking an important or unduly large fraction of the new capital? Mr. Mellon has stated his own conviction on this point and his opinion of the serious nature of the problem raised, in a letter to the Honorable Joseph W. Fordney, Chairman of the Committee on Ways and Means of the House of Representatives. The following is an extract from that letter:

The most important consideration is that the existence of the growing mass of tax-exempt securities, coupled with the extremely high surtax rates still imposed by law, tends to drive persons of large income more and more to invest in wholly exempt securities issued and still being issued by states and municipalities and heretofore issued by the federal government. The result is to impair the revenues of the federal government and to pervert the surtaxes, so that instead of raising revenue they frequently operate rather to encourage investment in wholly tax-exempt securities and even to encourage the issue of such securities by states and municipalities. This process tends to divert investment funds from the development of productive enterprises, transportation, housing, and the like, into non-productive or wasteful state or municipal expenditures, and forces both the federal government and those engaged in business and industry to compete with wholly tax-exempt issues and on that account to pay higher rates of interest.

The greatest value of the full exemption from taxation arises, of course, from the exemption it confers in respect to federal income surtaxes, and the constantly increasing volume of tax-free securities therefore constitutes a real menace to the revenues of the federal government. At the same time it makes the high surtaxes operate as inducements to investment in non-productive public indebtedness and is gradually destroying them as revenue producers. As a consequence, the yield of the surtaxes is dwindling and there is a premium on the issue of bonds of states and cities. In the last analysis this is at the expense of the federal government, and it is having a most unfortunate and far-reaching effect upon the development of the whole country, because of the diversion of wealth from productive enterprise.

This characterization of public indebtedness as non-productive is amazing. How it is possible to consider bonds issued for the construction of roads, bridges, waterworks, gas plants, school buildings, etc., as unproductive, it is impossible to understand. One might allege that the construction and operation of these various enterprises is more wasteful under public than under private direction though clear proof on even this point would really be very difficult to gather. But to call all these expenditures unproductive with the implication that they are inherently so is incomprehensible.

Here as in other cases an examination of the available facts is important. It will be remembered that the total amount of saving and hence of new capital is not easily ascertained although we have referred to Professor Friday's estimate that the total for 1923 was \$12,000,000,000. For comparative purposes, however, we may take the amount of security issues as published by The Commercial and Financial Chronicle. First, notice that the Treasury department estimates the amount of tax-exempt securities outstanding (and held outside of Treasury and sinking funds) on various dates as follows:

	<i>Amount Outstanding</i>	<i>Increase</i>
December 31, 1919....	\$ 8,506,000,000	
" " 1920....	9,804,000,000	\$1,298,000,000
" " 1921....	10,586,000,000	782,000,000
" " 1922....	11,321,000,000	735,000,000
" " 1923....	12,365,000,000	1,044,000,000
" " 1924....	13,552,000,000	1,187,000,000

Note: That these estimates are not too low is suggested by a statement of Joseph S. McCoy, Government Actuary, in a memorandum to the Secretary of the Treasury on January 12, 1922. After giving the estimate for January 1, 1922, as \$10,660,000,000 he adds: "This estimate may be fairly taken as a maximum, as no allowance is made in the computation for any debt maturing since July 1, 1919." Why no allowance was made is not stated, but the amounts involved must have been important during the 2½ years. Whether allowances for maturing issues have been made for the other years we do not know.

It is pointed out that the amount of these securities is increasing at the rate of about \$1,000,000,000 per year and that the problem has certain very serious features. Waiving for the moment the assertion that they are unproductive and not noticing at present how they are held we may inquire whether the amount issued is really excessive. For forty-nine states and hundreds of municipalities to say nothing of counties, school districts and other subdivisions the total certainly does not seem great, especially when one considers such modern demands as those for improved highways. But perhaps as good a test as any is to compare the growth in this financing with that for other purposes. Notice the following taken from The Commercial and Financial Chronicle (with the exception of the Treasury estimate of tax-exempts) and all given in millions of dollars:

	1920	1921	1922	1923	1924
Tax-exempt	\$1,298	\$ 782	\$ 735	\$1,044	\$1,187
Corporate	2,710	1,823	2,335	2,702	3,322
Foreign Government ..	191	329	416	186	570
Total Issues	3,634	3,576	4,313	4,304	5,569

Examine the amount year by year for any one of these classes of securities, and notice what is occurring, and remember that all refunding issues have been omitted. The annual issues of tax-exempts is irregular but in every one of the last four years has been less than in 1920. Even in 1924 the amount was only \$1,187,000,000 while new corporate issues

were \$3,322,000,000. Compare the increases in the various groups. In order to be conservative do not use 1920 as a basis since tax-exempt issues increased so little the next year, but use 1921. In 1924 tax-exempt issues were 52 percent greater than in 1921, but corporate issues were 82 percent more, foreign government issues were 73 percent more and total issues were 55 percent more. Even with this choice of 1921 as a base, a choice that goes to the extreme in favoring the Treasury department's view we find that tax-exempts increased less rapidly than total issues and much less rapidly than foreign government or corporate issues.

What has happened is not obscure nor surprising. Some lines of business have secured new capital readily and others have had more trouble. There has been, however, an abundance of funds and the tax-exempts have not received an especially large share. A few illustrations of large security issues are worth while (again in millions of dollars).

<i>New Capital for</i>	1920	1921	1922	1923	1924
Railroads	\$322	\$352	\$523	\$464	\$ 779
Public Utilities	382	491	726	887	1,325
Iron, Steel, Coal, Copper, etc.....	148	84	184	291	197

We may dismiss the notion that tax exempt issues are for nothing but unproductive uses, that they are particularly large or that other lines of industry are suffering because of the tax-exempt issues. It might be added too that the cost of capital is falling, not rising. Herbert B. Dorau in *The Journal of Land and Public Utility Economics* for July, 1925, finds the yield on new public utility security issues has fallen from 7.55 percent in 1920 to 5.49 percent in the first quarter of 1925.

HIGH TAXES AND HIGH PRICES

But are high taxes causing high prices? Again the facts do not support the charge. Prices in general fell sharply in 1920 and since that time have been remarkably steady. With 1913 as 100 and 1919 as 206 the index number of wholesale prices compiled by the United States Bureau of Labor shows 147 for 1921, 149 for 1922, 154 for 1923, 150 for 1924, and 157 for June, 1925. If the level had actually risen there could be no surprise. Our tremendous supply of gold has furnished the basis for an enormous increase. But for the present we are noting the facts and they are that the general price level has not altered very greatly since the decline of 1920 and 1921. Although the level has changed but little the movement has been upward, while taxes have twice been reduced since 1920.

Let us turn from facts to an explanation of the situation. Up to this point we have been listing the available information in order to ascertain the extent to which taxation is injuring business. Instead of inactivity we find prosperity. In the place of a shortage of capital we discover an abundance. Even the tax-exempts are not taking a very large percent-

age of our annual savings, and there is no a priori reason for arguing that they are taking too large a sum.

For all this there is a simple explanation. There is actually no reason to suppose that our taxes as they now stand can have any very serious effect on business. What is needed is more perspective, more detachment than any particular taxpayer can easily have. Taxes are an outlay for the one who pays them. Each man who hands \$100 to the tax collector has \$100 less than if he had not paid over that amount. To him the tax is a burden and he has just that amount less to put into his business or invest elsewhere or perhaps to spend in personal enjoyments.

But it does not follow that the money thus paid out is a loss to the community or to the individual who pays it. If the government gives an adequate return in services rendered or if the government promptly returns to private individuals the funds thus collected there is certainly no loss.

Our earlier discussion has concentrated attention on one particular line of government expenditure—debt service. It will be remembered that a large fraction of the reduction in federal expenditures to date has been due to the curtailment of war activities; that economies in ordinary expenditures should be made wherever possible without unwise diminution of service but will soon reach a limit if they have not already done so; that the aggregate of ordinary expenditures has been rising for many years, is still growing and may reasonably be expected to increase in the years to come; and that in any case a reduction of taxes will result in a less rapid liquidation of our huge federal debt than could otherwise occur.

WHY OUR HIGH TAXES DO NOT RESTRAIN BUSINESS

This means that there is no occasion to argue the comparative efficiency of government and private conduct of business. The issue is one of debt payment and hence is comparatively simple. If A pays \$100 in taxes to the federal government and the government immediately pays the \$100 to B as interest on his holdings of government bonds nothing has been taken from private business. Instead the government has merely transferred this sum from one private person to another private person.

With what result? There is, of course, some loss since tax collectors must be paid but not much since the extra cost in collecting a large rather than a small amount of taxes is not of much importance. The only other consideration is this. Will A or B use the funds more wisely, more helpfully in the community? What would A have done with his \$100 if he had not paid it in taxes? We can speculate but that is all. He might have saved it or he might have used it in personal enjoyment, depending on his needs, his standard of living, his tendency to

save. What will B do with it when he receives it in interest on his bond? Again we can not know but since B has at one time saved enough to buy the bond he probably will save, *i. e.*, reinvest the interest. If anything there is a chance of more saving than though the taxes had not been collected.

But it will be pointed out that the real argument is over the rapidity of the repayment of principal. Exactly. Suppose an extra \$100 is taken from A and then handed to B in payment not of the interest on his bonds but of the principal of one of them. Again the money is merely transferred from one private individual to another. Again we can not know what A would have done with the money. Nor can we be sure what B would do with it, but it seems highly probable that he will spend his principal on personal enjoyment only in the most unusual cases. He will promptly reinvest in some other security. A will be out \$100 but somewhere else in the community an individual or an enterprise will gain \$100.

Under the circumstances it is clear that high taxes imposed for the purpose of paying debt, interest or principal, do not raise the question of government efficiency in business nor is the money collected diverted from private business. It promptly goes back, the only difference being that probably more is saved than would otherwise be the case and that the savings are perhaps invested in a different way by B than they would be by A. The business belonging to A may be hampered but some other business gets the funds. Which is better for the country cannot be decided as an abstract proposition. If B uses it in bootlegging or illicit traffic in drugs and A would not, we are worse off. If A would have used it in such ways and B would not, we are better off.

CAN OUR HIGH TAXES RAISE PRICES?

Since high taxation for the purpose of paying off the debt does not take funds away from business does it raise prices? We have already noted that the general price level in the United States has not risen greatly in the last few years and that taxation has declined but there still remains the possibility that prices are higher than they would be if there had been lower taxes. Since no appeal to facts is possible in reply to such a contention a different approach is necessary.

First it may be observed that high taxes would be rendering us a valuable service if they could prevent prices falling. A decline in prices such as is being experienced just now in Great Britain is a most disastrous influence. But, luckily or unluckily, we can not attribute any such power to taxes. Instead a brief excursion into the theory of prices is necessary.

Before examining price theory, however, we should state the argument that taxes raise prices. It is said, for example, that a farmer who must pay

taxes, merely adds a corresponding amount to the price of his cattle, that this increase in price is passed along by commission man, packer, meat dealer, shoe manufacturer, and others, with the result that the whole price level is raised (or at least is higher than it would have been otherwise).

This attributes to the farmer or other taxpayer a surprising amount of control over the price of his product. If he could demand and receive a higher price for his produce he would of course not hesitate to do so even were there no tax levy as an incentive. The price he gets is determined by a complex of supply and demand influences and only through some shift in them will the price be altered. If the tax in question in some way lessens the supply of his product or increases the demand for it, then the price will be higher, otherwise not.

Can a tax have such an effect? Certainly it may *on a particular article taxed*. If a tax is imposed on wheat it adds to the costs of the producers of wheat. But the price will go up only if and when some of the wheat producers are driven out of wheat raising and less wheat is placed on the market. Then the price will tend to rise. But this is only part of the story. What about the purchasers of wheat? If a consumer of wheat is taxed his purchasing power is diminished and he will buy less of something, perhaps less wheat. If so, his withdrawal from the market means a lessened demand and wheat prices tend to decline.

The entire theory of tax incidence is complicated and any attempt in this study to analyze it would be doomed to failure because of the inherent difficulty of the topic and because of limited space. Fortunately such an analysis is entirely unnecessary for our purpose. Taxes may and probably do raise some prices and lower others by changing the supply of and the demand for particular products that are taxed. But the net result is that the general level of prices is very little affected and is perhaps not influenced at all.

This is not hard to understand. The aggregate purchasing power of the country consists of the supply of circulating medium which is a demand for goods. If this supply is increased as it was during the War or if it circulates more rapidly the price level will rise. If, on the other hand, the supply is contracted the price level falls. If the volume of goods offered for sale on the market is for any reason lessened prices rise. If the output of goods is increased prices fall. Unless one can find in high taxes a force that will affect the volume of money (or other means of payment) or the output of goods, there is no reason to allege that high taxes raise prices.

In practice what happens? The producers of some article are taxed. Their costs rise, some of them may fail and go out of business and the remainder, if their aggregate output is smaller, can and do charge more for their particular goods. But what becomes of those who fail? They may re-

main idle with the result that there is a reduction in the total community output. But if they enter other lines of production the volume of output in those lines is increased and the prices there tend to fall. The general price level is probably about the same as before when all products on the market are taken into account. The only allowance to be made is for some friction and delay in the transfer of effort from one business to another.

Of course high taxation may be for wasteful activities of a government which diverts the labor and capital of the country from the production of desirable goods and services into useless or harmful channels. If, as is charged, there is a possible saving of several hundreds of millions to be secured by a reorganization of the federal government along lines that will not hamper its value to the public there is an important gain. Labor and capital now used unwisely would be saved for better uses. But if the millions thus saved were not lopped from the tax bill but used to liquidate the debt there would still be the saving in productive effort for the country. At the same time the debt burden would be lessened and the funds taken by the government would promptly go back to the community for use there.

TAXES AND PRODUCTION

But have not high taxes held back productive effort? Do not many men refrain from production because so large a fraction of their profits will be taken by taxation? Certainly the general business activity does not indicate it. Nor is there any reason for thinking that existing tax rates would have any such effect. If rates were 100 percent some such result might conceivably follow. But what are the facts? At present we hear much about the surtax rate of 40 percent which is said to be high. How many individuals in the country are paying this rate on their incomes of 1924 is not yet made public, but for the year 1923 there were exactly 215 individuals with taxable incomes of \$500,000 and over who were subject to the tax of 50 percent. All other individuals subject to the highest surtax paid something less, in fact much less. In 1923 only 4,182 persons paid federal taxes on incomes in excess of \$100,000.

Just who are included among the 215 with taxable incomes of \$500,000 and over we do not know. Probably Secretary Mellon, Henry Ford, several Rockefellers, George F. Baker, and some others like them are among the number. Those named and probably every other person on the list was following his life long habit of working energetically every day or of clipping coupons and doing nothing at all.

What else is to be expected? The number actually is a small one. If all of the 215 refused to labor the country would probably survive. But why should they refuse? Out of every dollar made

in excess of \$500,000 only forty cents go in federal income tax and sixty cents are left for other purposes. Besides much of these large incomes is not the result of current productive activity but comes from investments. In 1923 the percentage of total income that came from property among the recipients of total income amounting to \$500,000 or more was about 92 percent. This is not the percentage as given by the Bureau of Internal Revenue whose estimate is 57.68. The Bureau includes, however, in "Income from personal industry" the highly important item, "Capital net gain from sale of assets held for more than two years." We insist that this is more properly to be classified as income from property. It is so-called "unearned income." Suppose Mr. Rockefeller is dissatisfied with the high income tax. What can he do about it? Sell his securities and buy others? The investment is there just the same, nothing having changed but the owner who usually has little to do with the operation of the enterprise. Moreover the former owner merely has some other investment instead of the old ones. But why not sell and refuse to reinvest? Then, of course, the money lies "idle" in bank. But is it idle? As a matter of fact the bank at once lends most of the funds to others who want them.

It would be interesting to see a list of those whose activities are said to have been curbed through fear of high taxes. This list should give names and occupations and should indicate the sources of income for each—whether from salary (or wages), interest, dividends, royalties or what not. Of course the amount of income from each of these sources and in the aggregate should be given as well as the amount of taxes paid. There should also be an explanation of each individual's activities during the preceding year in order to make clear whether he had shirked and to what extent. In some cases a comparison of his activities in the preceding year with an earlier period when taxes were lower would be needed. Then too we would like to know the line of activity from which he refrained since that would help us to determine how much if anything the country has lost through his abstention from work.

HAVE SURTAXES BEEN TOO HIGH?

A final contention is that high taxes may produce less than lower ones, and here as elsewhere Adam Smith and other economists are quoted in support of the argument. Of course, one is puzzled at the outset to know why the significance of this does not appeal more strongly to the British, who persist in keeping rates high ostensibly for the sake of revenue or to the French and others who need more than they have and ought to get it by lowering taxes, but who continually talk of raising rates instead of lowering them. Unfortunately the argument as it applies to the United States is made to

depend largely on the assertion that the taxpayer places his funds in tax-exempt securities, a contention that we have already disposed of. There is undoubtedly some truth in the insistence that high taxes encourage evasion, but like all other general statements it can be overdone. Tax-exempts are taking some funds, but there is no proof that the amount is unduly large or that the country is at all the worse for it. Much capital is going abroad, but with taxation so high in most other countries the movement can be explained only by saying that the yield to the American investor is greater on these foreign investments than on domestic ones, even after proper allowance is made for tax burdens in both countries concerned. Undoubtedly a tax burden here is an influence to be considered.

Much of the argument can readily be settled by first examining the facts and then noting that government revenues are in each year the product found by multiplying the taxpayer's income by the rate of taxation.

Receipts from the income and excess profits taxes for several years have been:

1918	\$2,852,324,865
1919	2,600,783,902
1920	3,956,936,003
1921	3,228,137,673
1922	2,086,918,464
1923	1,691,089,534
1924	1,841,759,316
* 1925	1,760,537,823

* Preliminary figures.

After 1920 there was a reduction through 1923. In this period was passed the legislation which eliminated the excess profits tax and lowered the surtax rates from a maximum of 65 percent to a maximum of 50 percent. But the receipts for 1924 (based on incomes of 1923) with no further change in legislation showed an increase of about \$150,000,000 over 1923. For 1925 the preliminary figures show a considerable decline over those of 1924.

But these figures include corporation taxes as well as personal. Close attention to this is highly important as many false conclusions are being drawn. If one is to discuss the effect of a reduction of surtaxes on personal incomes he should examine the yield from the personal incomes and not from both corporate and personal. Since we are interested primarily in the latter the receipts from that source alone should be presented. Unfortunately we do not yet have them separately given for 1924 or 1925.

1918	\$1,127,721,835
1919	1,269,630,104
1920	1,075,053,686
1921	719,387,106
1922	861,057,308
1923	703,962,165

Returns from this source fell from 1919 to 1921, rose in 1922, then declined to a new low level in

1923. The product of income and rate of taxation is giving a smaller return from taxes on personal income than before rates were lowered.

If taxes are lowered particular taxpayers will gain. Their expenses will be lessened, their profits will increase. But it does not follow that the country as a whole would gain. Instead it will lose, first in its failure to liquidate the national debt as rapidly as is wise; second, in a less equitable distribution of tax burdens if the reductions now proposed are put into effect. This second point will next receive attention, but before passing on it is worth while to repeat that American business is on the whole not suffering from high taxes or from anything else; there is new capital available in enormous amounts; tax-exempt securities are not absorbing a serious percentage of these new funds; heavy taxation for debt liquidation does not take funds from private control, but merely shifts them from one group to another; the general price level is holding fairly steady, and such changes as are occurring bear no apparent relation to the tax level and logically can have no relation to it; and finally, the argument that lowered tax rates will bring larger revenues is not supported by experience to date.

SHOULD SURTAXES BE LOWERED?

We now turn to the proposed reductions in taxes. Unfortunately it seems probable that large reductions will occur and that debate will centre on the direction and extent of the cuts.

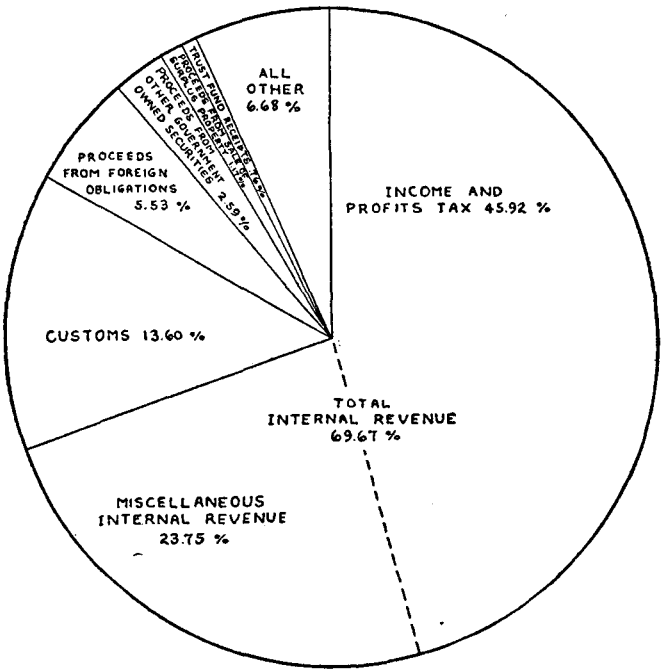
First let us notice present sources of revenue, taking for the purpose the following diagram which shows the division for 1925. It should be noticed that the total is \$4,012,000,000 instead of the \$3,884,000,000 given in an earlier table. The smaller figure is found after making certain minor adjustments in the accounts.

This diagram showing nearly 46 percent of the receipts coming from income and profits taxes and less than 14 percent from customs is in marked contrast to the situation a few years ago when approximately one-half of our federal receipts came regularly from customs. The change is significant and is one of the most important signs of progress that we can find in public financing. It is in brief a recognition of the fairness of direct taxation as contrasted with indirect taxation and is evidence of a willingness to apply in practice the idea of faculty or capacity to which so much lip service is rendered.

DIRECT VS. INDIRECT TAXES

Perhaps this needs a little elaboration. The distinction between a direct and an indirect tax is that the person who pays a direct tax is one who does not pass on the actual burden to someone else by charging a higher price for his goods or services while the one who pays an indirect tax does shift

ORDINARY RECEIPTS OF THE GOVERNMENT
FISCAL YEAR ENDED JUNE 30, 1924
TOTAL = \$ 4,012,044,701



the burden in some such manner. There are disputes galore over the extent to which particular taxes are shifted and hence are indirect, the incidence of taxation being one of the most intricate topics in the entire field of economics. Yet there is no argument over the proposition that on the whole the customs duties are largely shifted and hence are more of an indirect burden than the income tax which for the most part cannot be passed on by the taxpayer to someone else. Therefore the change in recent years is a welcome one. When Gladstone years ago proposed equal amounts of revenue from the two kinds of taxation—direct and indirect—his views were called advanced. Fortunately both England and the United States have now passed far beyond the equal division he approved. A change from a state of mind in which we deceive ourselves regarding the amount we pay in taxes to a frank recognition of what the operation of our government costs us is a change for the better.

But there is another reason for satisfaction and that is in the smaller burden on the taxpayer. First is the lower cost of the actual collection of the tax. Thus in 1924 the cost of collecting each \$100 of customs duties was \$2.58, while the cost for collecting each dollar of internal revenue (chiefly income tax) was only \$1.24 or about one-half as much.

Second is the fact that the payment in an indirect manner is a heavier payment than if it were made directly. Let us suppose the government needs \$100,000 from me. If I pay it as an income tax the government collects it direct from me at a cost of about 1¼ percent. My payment is, however,

just \$100,000. But if the government reaches me indirectly by a customs duty it is a far different matter. The importer pays the government the \$100,000. Let us assume that goods costing \$100,000 are involved and that there is imposed on them an import duty of 100 percent. Without the duty they would cost the importer \$100,000, but with the duty added the cost is \$200,000. The goods are sold by the importer to a jobber at an increase of (say) 10 percent over cost, the jobber sells them to a retailer at an increase of (say) another 10 percent and the retailer passes them on to me, the consumer at an increase of (say) 20 percent.

If we compare what the goods would sell for all along the line under the two assumptions—A and B—we have the following:

	Importer	Jobber	Retailer	Final Consumer
A (no duty)	\$100,000	\$110,000	\$121,000	\$145,200
B (100% duty)	200,000	220,000	242,000	290,400

As the final consumer I find the goods cost me just twice as much under the second assumption, or \$145,200 more than if there had been no duty. If I could have paid to the government as a direct tax the \$100,000 it needed and the customs duty had not been imposed I would have been \$45,200 better off.

Needless to say this statement must not be taken as having a high degree of exactness for taxes are not shifted with the beautiful precision assumed in the illustration. Neither is the issue of a protective tariff raised, but merely the use of the tariff as a revenue measure. With these explanations it should be clear that the indirect tax is a much heavier burden on the taxpayer than a direct tax that yields the same revenue to the government.

But after all more significance attaches to the fact that an income tax is a far better test of ability to pay, or faculty, than are most indirect taxes. Import duties may be imposed on any articles that may be chosen for the purpose, but in practice chief reliance must be placed on articles that are widely used and that are among the so-called necessities of life. This is first of all because only such articles will yield adequate revenue and second because the demand for articles of luxury used by only a few quickly declines in periods of adversity. Of course, such a tax falls most heavily on the one who buys the largest amount of the goods that are taxed, but a rich man can consume but little more sugar, tea or coffee than a poor man. The distribution of burdens bears little or no relation to ability.

But the income tax is a different matter. When the rate is fixed at say five percent, the amount paid varies directly with the income. Of all tests of ability or capacity to pay income is probably the best. Accordingly the tax on income is one which distributes tax payments most nearly in accordance with ability. This is an elementary statement, but is made because we are so apt to forget the more fundamental reasons in favor of the adoption of the

income tax, becoming confused in discussions over details or over irrelevant issues.

Thus far it is a simple presentation of the leading arguments for a proportional income tax, one under which each taxpayer pays the same percentage of his income as does every other taxpayer. But ability to pay does not vary directly with capacity in any such simple fashion. Ability to pay increases as one goes up the income scale much more rapidly than a fixed rate of tax would reach. Hence the idea of progressive income taxation, which provides a higher rate for the larger incomes.

The income tax has been introduced into the fiscal systems of the leading countries of the world only with great effort and in the face of much opposition. The whole idea was bitterly combated, but there is every reason now to feel that this form of taxation has come to stay. Even the idea of a progressive rate has been quite fully accepted. In the United States there is now no active debate over the principle of such a rate, the discussion centering instead on the proper scale of rate increase as one passes from the lower incomes to the higher.

A PROPER SCALE OF INCOME TAX RATES

So far as the writer knows there is no government official and no economist of standing who is entirely certain just what the rates for a progressive income tax ought to be. Yet few if any who discuss the subject feel that rates as high as the ones that now prevail in our federal tax system are so high as to be unfair to the rich taxpayer. It is contended instead, first, that high rates discourage his initiative and, second, that high rates encourage evasion in one form or another. It seems to be assumed that there is no serious injustice in existing rates. Even though a considerable percentage of a large income should be taken it is felt that the capacity of the rich taxpayer warrants taking it and that what he has left is abundant for his needs. With these assumptions we agree.

As Secretary Mellon says, the question is one to which ordinary business experience must give answer. As we understand him the issue is largely one of expediency. He favors the rate that will yield the maximum return, and argues that experience with our high surtax rates shows that the yield from these rates is declining. Since this is the case he contends that the rates should be adjusted to a more productive level.

In this instance as in others a large amount can be accomplished by an examination of the facts. The issue is whether the high rates produce as much as lower ones would do. The line of inquiry would seem to be about as follows: (1) How high are existing rates? (2) Is there reason to believe that these rates are producing less than lower rates would yield?

It may seem strange to ask about the level of

existing rates since it is common knowledge that the surtax rates rise to a maximum of 40 percent upon net incomes in excess of \$500,000. Yet this figure is merely the nominal maximum rate and is by no means the percentage of total income actually paid in taxes.

TAX RATES VS. TAX PAYMENTS

There is no way by which to determine the rate of tax actually paid by the recipients of large incomes other than to examine the returns as compiled by the Commissioner of Internal Revenue. Statistics of Income giving the data for incomes of the year 1923, is the latest available report and from it we gather the following facts regarding personal incomes of \$100,000 and over. It is to be noticed that this is for incomes for the year 1923 when the highest rate was 50 percent instead of the present maximum of 40 percent applicable to incomes of 1924 and thereafter. In addition, of course, each one paid the 8 percent normal tax.

<i>Income Class</i>	<i>No. of Returns</i>	<i>Net-Income</i>	<i>Tax-Yield</i>	<i>Average Tax per Individual</i>	<i>Average rate of tax (per cent)</i>
\$100,000 to \$150,000	2,339	\$280,656,213	\$55,719,390	\$ 23,821	19.85
\$150,000 to \$300,000	1,301	260,584,012	62,104,203	47,735	23.83
\$300,000 to \$500,000	327	124,569,194	31,668,552	96,845	25.42
\$500,000 to \$1,000,000	141	95,107,209	25,498,434	180,839	26.81
\$1,000,000 and over	74	152,071,881	35,788,475	483,628	23.53

The first fact to notice is that no one in 1923 was actually paying the federal government 50 percent of his income. Actual rates as paid on net income under the provisions of the law resulted in a payment of less than 27 percent by the group with the highest rate and of less than 24 percent by the group with the largest incomes. This is a very different matter. Instead of one-half of total net income being taken the percentage is only a little more than one-fourth. This may still be too large a fraction, but we at any rate should be clear in our understanding of what is occurring.

These are the incomes, yields and average rates actually paid in 1923 and the payments are the ones made under the law of 1921 which superseded the law of 1918. Let us next notice the two scales of taxation and with them the scale adopted in the law of 1924, which is applicable to incomes of 1924 and thereafter. It is highly important to realize that there have already been two reductions from the high level and to notice how much the rates have been lowered. The following chart gives the nominal surtax rates under the three laws. The lines show not the percentage of net income actually paid under each law, but the nominal surtax rate, a far different matter.

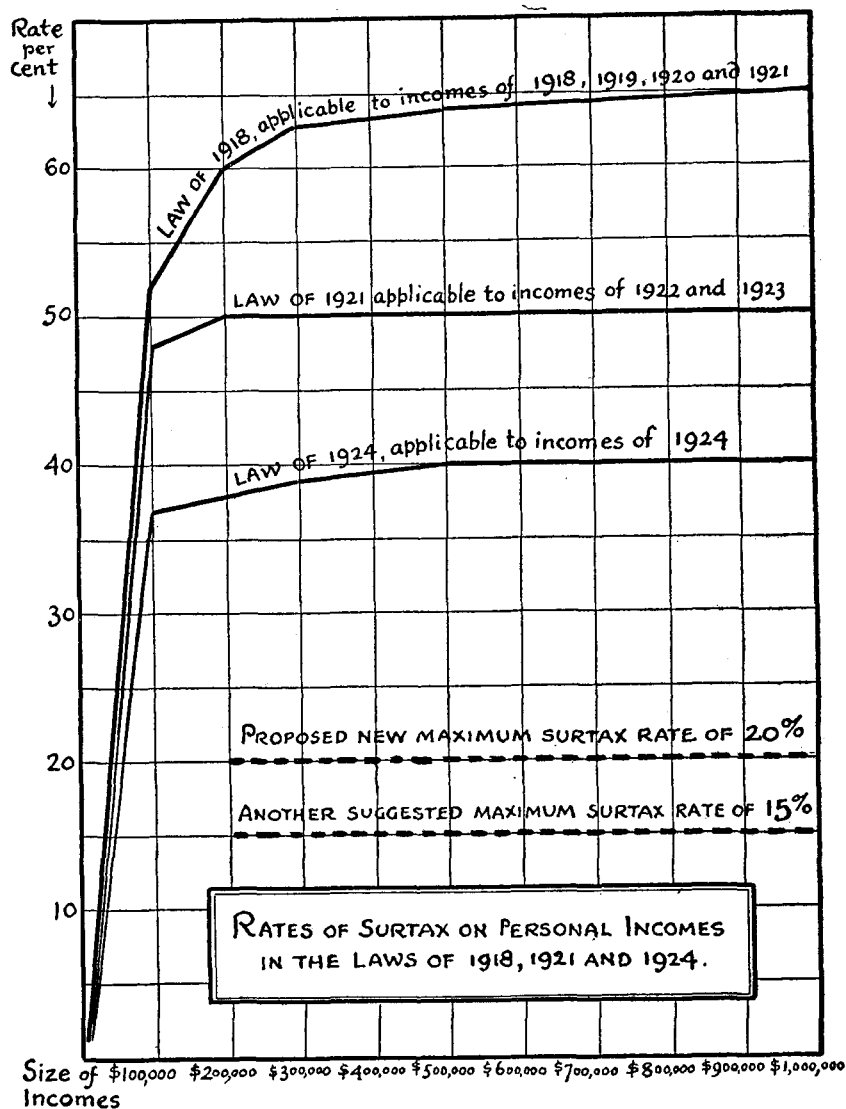
These three lines tell a story, though not a complete one, of changes in rates. They trace only the surtax rates and do not include the normal taxes. Also they are merely a charting of nominal maximum rates for each class of income as stated in the various laws. Rates actually paid will be noticed in a moment.

With this explanation notice two facts shown by the chart. First, is the decline of the maximum rate from a level of 65 percent for net incomes in the income class of \$1,000,000 and more in the law of 1918 to a maximum of 50 percent on net incomes in the income class of \$200,000 and more in the law of 1921. This was lowered by the law of 1924 to a maximum of 40 percent on incomes in the income class of \$500,000 or more and to still less for incomes of \$100,000, \$200,000 and \$300,000. It has been proposed by some to lower the maximum rate to 20 percent and by others to lower it to 15 percent. These suggested new levels are indicated by dotted lines on the chart, although the lines cannot be extended very far to the left since there is no way of knowing just what general scale of rates may be proposed.

In this chart the rapid fall in the level of the maximum surtax rates stands out very prominently, but a second point should not escape attention. It will be noticed that the curves at the left stay quite close together until the highest incomes are reached. Not until the incomes of \$100,000 and more are involved is the spread conspicuous. This is, of course, in part a visual effect due to the form of the chart, but not entirely so. Examination of the actual rates applicable to lower income classes shows a smaller decline. Thus the rates on the class with incomes from \$48,000 to \$50,000 have been 23, 22 and 17 percent in the three laws, a decline of only six points or of about 26 percent. For the largest incomes the surtax rate has been lowered from a maximum of 65 percent to 40 percent, a decline of 25 points or about 38.4 percent.

TAXES PAID IN 1921 AND 1923

But a statement of nominal rates is actually far less important than a statement of rates paid and the next chart shows the rates actually paid by different classes of incomes under the two laws for which returns are available, i. e., those of 1918 and 1921. Facts are not yet at hand about the rates actually paid under the law of 1924. This chart pictures the combined surtax and normal rates as stated in the laws of 1918 and 1921 adding two



other curves to show the average rates of tax per individual as paid in 1921 and in 1923.

In this chart the lines at the extreme left cut across each other and are a little confusing to follow, but they soon separate. Notice first the solid line giving the combined normal and surtax rates in the law of 1918 and then compare with it the dotted line which traces the average rate of tax per individual paid in 1921 under the law of 1918, based on figures which we understand includes both normal tax and surtax payments. Average tax rate paid is regularly far below the combined normal and surtax rates. It is interesting, however, to observe that the largest income class (\$1,000,000 and over) paid 63.59 percent or almost the maximum surtax rate of 65 percent.

Notice next the line which pictures the combined normal and surtax rates in the law of 1921 which reach a maximum of 58 percent on incomes of \$200,000 and over. Compare with it the dotted line, picturing the average rate of tax per individual paid in 1923 under the law of 1921. Observe the spread between the two from the very first and notice particularly that the spread narrows a very little for the incomes of from \$500,000 to \$1,000,000 (where the figures are 58 and 26.81) only to in-

crease for incomes of \$1,000,000 and over (where the figures are 58 and 23.53.)

These figures and charts are not presented in criticism of the law or of its administration. A

difference between the level for the nominal rates and the rates actually paid is readily understandable. It would be a great misfortune, however, in so important an issue to misunderstand the facts. What was done in the law of 1921 was to lower the tax burden on the largest incomes not from 73 percent as we sometimes think, but from 63.59 percent as actually paid in 1921 to 23.53 percent as actually paid in 1923, a reduction of 40 points or nearly 63 percent. What changes in taxes actually paid were made by the law of 1924 we do not know. The rate actually paid in 1923 on incomes of \$1,000,000 and over was only

47 percent of the maximum surtax rate which was then 50 percent. If actual payments in this income bracket in 1924 bore the same relationship to the 40 percent maximum surtax rate, then payments were only 18.80 percent. If the same relationship were maintained under a new maximum surtax rate of 20 percent or 15 percent the actual payments would be either 9.40 percent or 7.05 percent.

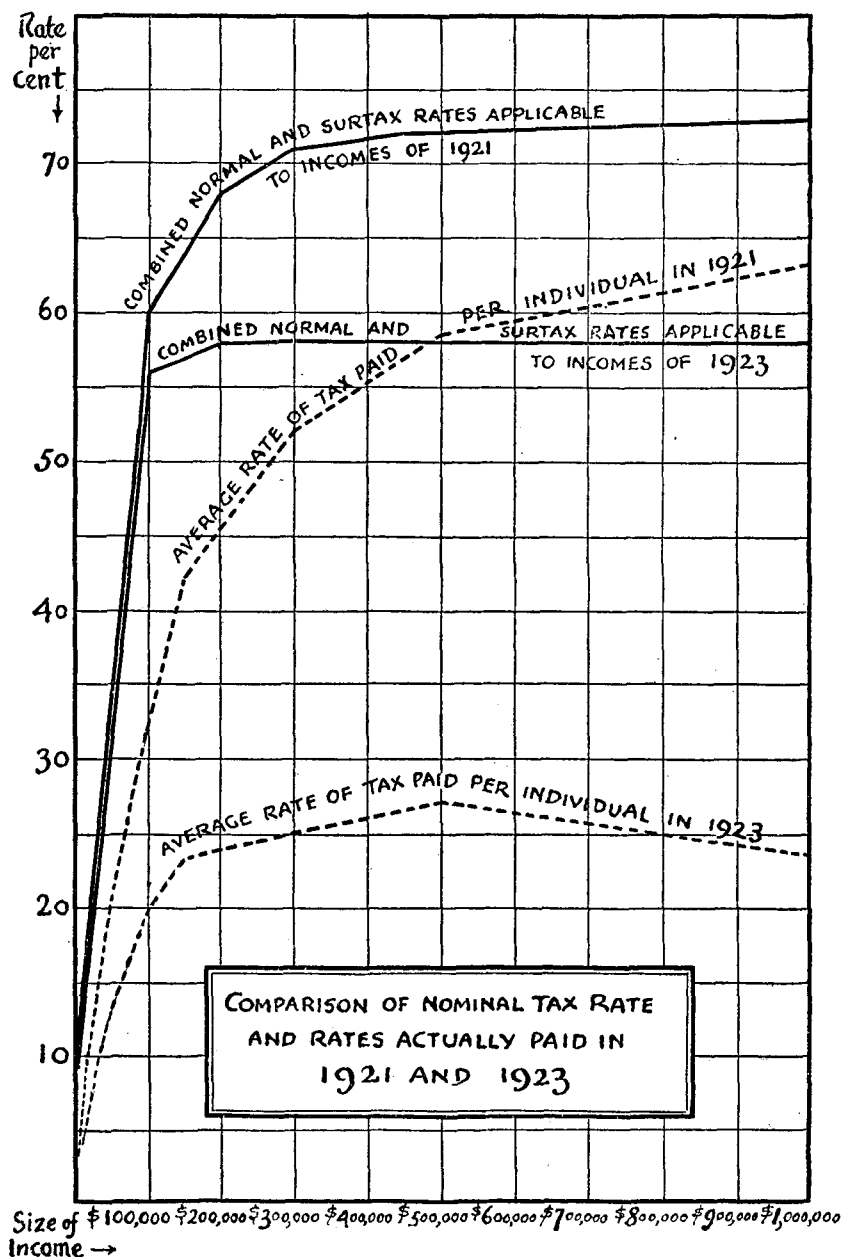
Such calculations cannot of course be made. Only the actual returns will settle the matter, but it seems probable that actual rates paid including the normal rate will be considerably lower than the nominal surtax rates. For the present the fact to keep in mind is that on the largest incomes the rates paid fell from 63.59 percent in 1921 to 23.53 in 1923. In 1924 the rate paid must have been considerably less and still further reductions are being urged.

HAVE LOWERED RATES BROUGHT SMALLER YIELDS?

Having noticed the rates now being paid we are

ready for the next step. Are there any reasons for believing that existing rates are too high to yield maximum returns? Might more revenue be secured, particularly from the wealthier taxpayers, if rates were lowered? It is argued that experience to date shows that payments in the higher brackets is declining and the statistics presented in support of the view show (1) that the yield from taxpayers with net incomes in excess of \$100,000 declined through 1921 and (2) that with lower rates the net income reported by this class increased in 1922 and again in 1923.

Curiosity is aroused when one examines the returns from 1918



to 1923 as arranged in the following table:

Year	PERSONAL INCOME TAX YIELD			Total Tax
	Normal Tax	Surtax	Tax on Capital. Net Gain, 12½%	
1918.....	\$476,432,808	\$651,289,027		\$1,127,721,835
1919.....	468,104,801	801,525,303		1,269,630,104
1920.....	478,249,919	596,803,767		1,075,053,686
1921.....	308,059,422	411,327,684		719,387,106
1922.....	355,409,840	474,581,111	\$31,066,357	861,057,308
1923.....	321,064,474	353,711,067	29,186,624	703,962,165

This table seems to support the contention that the high rates resulted in a lowered yield—but only in part. It will be remembered that the reduced rates went into effect first with the incomes of 1922. Surtax yields certainly declined from 1919 to 1921 and then rose in 1922, but they fell again in 1923 to the lowest point in the period covered. Even if one includes the tax of 12½ percent on capital net

gains which were taxed at ordinary surtax rates before 1922 the general change is the same. The total for 1922 becomes \$505,647,468, but for 1923 falls to \$382,897,691. Clearly the reduced rates did not bring an increased yield from the surtaxes, at least not for both years. In 1923 the surtax yield was only 74 percent of that in 1922.

But somewhat the same trend is seen in the yield from normal taxes. There is a decline to a low point in 1921, then an increase in 1922 followed by a decline in 1923. The only difference between the two is that the movement is within wider limits in the case of the surtax yield, a difference to be explained a little later. The net result of the changes in the two is a total yield that rose in 1922, but fell again in 1923. Lowered rates did not bring higher returns.

It is possible of course to fall back on the assertion that the yields were higher in the upper income classes than they would have been with higher rates. The correctness of such a contention can be tested if the returns are analyzed by income groups, noting the number of taxpayers in each group, the total net income for each, and the tax yield from each over a period of years. This is done in the accompanying table, the groups used being (1) \$300,000 and over, (2) \$100,000 to \$300,000, (3) \$25,000 to \$100,000 and (4) \$5,000 to \$25,000.

\$300,000 AND OVER			
	No. of Returns	Total Net Income	Tax Yield
1918.....	627	\$401,107,868	\$237,884,244
1919.....	679	440,011,589	261,286,160
1920.....	395	246,354,585	141,869,551
1921.....	246	153,534,305	88,391,446
1922.....	537	365,729,746	131,565,210
1923.....	542	371,748,284	92,955,461

\$100,000 TO \$300,000			
	No. of Returns	Total Net Income	Tax Yield
1918.....	3,872	\$589,131,557	\$231,835,980
1919.....	4,847	729,541,459	281,800,652
1920.....	3,254	480,650,178	179,192,117
1921.....	2,106	309,469,046	113,826,044
1922.....	3,494	527,017,934	170,147,654
1923.....	3,640	541,240,225	117,823,593

\$25,000 TO \$100,000			
	No. of Returns	Total Net Income	Tax Yield
1918.....	38,538	\$1,657,763,447	\$277,669,303
1919.....	50,797	2,173,861,844	341,303,957
1920.....	50,641	2,118,171,446	317,982,995
1921.....	37,663	1,561,859,523	228,621,475
1922.....	47,478	2,013,497,786	269,789,804
1923.....	52,680	2,199,785,930	213,732,146

\$5,000 TO \$25,000			
	No. of Returns	Total Net Income	Tax Yield
1918.....	435,935	\$3,882,238,066	\$235,506,642
1919.....	605,336	5,366,413,010	256,370,433
1920.....	627,272	5,616,235,749	270,145,354
1921.....	485,591	4,336,915,443	195,757,832
1922.....	542,702	4,897,776,482	193,963,872
1923.....	888,843	7,571,987,936	205,067,683

Notice first the highest income group. There was a decline in the number of returns, the total net

income and the tax yield from 1919 through 1921, so much so that a reduction of tax rates was urged in order to bring in more revenue. Rates were reduced and what happened? The number of returns shot up in 1922 and increased slightly in 1923. The same changes occurred in total income of this group, but what happened to the tax yield? It rose in 1922 but fell in 1923 to a level almost as low as that of 1921. Yet in 1923 there were over twice as many returns and over twice as much income as in 1921. Also both the number of returns and the income were in excess of those of 1922, but the tax yield was only \$92,953,000 as compared with \$131,565,000 in 1922. This shows not a higher yield with lower rates, but a lower yield.

But glance at the next group, those with incomes from \$100,000 to \$300,000. The same trend appears. Again there is a decline in number of returns, total net income and tax yield from 1919 to 1921, then an increase in returns and income for both 1922 and 1923. The tax yield, however, shows an increase for 1922 followed by a decline in 1923. Examine the third group and the same changes appear. The fourth or lowest group in the table also has the same characteristics except for the very important difference that the tax yield in 1923 was greater than in 1922.

Throughout these groups there is a distinct change as one passes from the higher incomes to the lower. The fluctuations from year to year are greater in the higher income groups. For some reason the lower income groups are more steady and the lower the income of the group the greater the stability.

There is a twofold reason for what this table shows. One is that the slump in 1920 and 1921 was due to the business reaction which came on us so severely in 1920 and was reflected in the incomes of 1920 and 1921, but was fortunately followed promptly by a revival that raised total incomes in the succeeding years. On this we need not dwell except to record regret that so simple an explanation was not accepted at the time to account for the decline in tax yield in the higher brackets.

INCOMES FROM PERSONAL INDUSTRY AND FROM PROPERTY

Another reason for what we observe in this table is to be found in the nature of the incomes received by the taxpayers in the higher as contrasted with the lower groups. The former receive their incomes chiefly from property and the latter through salaries and wages. For 1922 and 1923 the Bureau of Internal Revenue has analyzed personal incomes by sources on a percentage basis and combines the results for the country in 1923 as follows:

Income from	Amount	Percent
Personal Industry.....	\$22,872,422,382	73.53
Property.....	8,235,004,648	26.47
Total	\$31,107,427,030	100.00

This classification is mentioned only to record our objection to one phase of it, since in the table to follow we shall use a slightly different grouping. The Bureau of Internal Revenue includes under income from "personal industry" income from wages and salaries, business, partnerships, profits from sales of real estate, stocks and bonds, and capital net gain from sale of assets held for more than two years. Under income from property the Bureau includes rent and royalties, interest and investment income, interest on government obligations not wholly exempt from tax, dividends, and fiduciary. We differ from this believing that "capital net gain from sale of assets held for more than two years" belongs under property income. The following table is an adaptation of one on page 8 of Statistics of Income, 1923, and groups the items as does the Bureau of Internal Revenue with the one exception noted. Also we have omitted the figures given by the Bureau for incomes of less than \$1,000.

DISTRIBUTION OF PERSONAL INCOME BY SOURCES AND BY INCOME CLASSES, SHOWING THE PROPORTION FROM PERSONAL INDUSTRY AND FROM PROPERTY, CALENDAR YEAR, 1923:

INCOME CLASSES		INCOME FROM		
		Personal Industry	Property	Total
\$1,000	to \$2,000	85.06	14.94	100.00
2,000	to 3,000	85.59	14.41	100.00
3,000	to 5,000	78.97	21.03	100.00
5,000	to 10,000	70.38	29.62	100.00
10,000	to 25,000	61.22	38.78	100.00
25,000	to 50,000	49.55	50.45	100.00
50,000	to 100,000	38.86	61.14	100.00
100,000	to 150,000	31.01	68.99	100.00
150,000	to 300,000	24.51	75.49	100.00
300,000	to 500,000	18.55	81.45	100.00
500,000	to 1,000,000	13.61	86.39	100.00
1,000,000	and over	5.06	94.94	100.00

Only a glance is needed to indicate the significance of this table. In the lower income classes most of the income is received from personal industry and less than 15 percent from property. In the highest bracket only 5 percent comes from personal industry while 95 percent comes from property. In this 95 percent the large items are 47.71 percent "dividends" and 40.51 percent "capital net gain from sale of assets held over two years."

While this fact is clear and perhaps not surprising there are certain implications that should be stressed. One is a point already referred to. When wealthy taxpayers receive 95 percent of their income from property there is no occasion to worry over their unwillingness to engage in enterprises that benefit the community. Their earnings come chiefly as dividend checks, coupons and gains from the sale of property—not wages and salaries. Until authenticated cases of indolence are presented with proof that they are due to high taxes, we may drop the charge as not substantiated.

A second point for emphasis is that from 44 to 48 percent of the income of the groups with \$100,000 or more per annum comes as dividends and

from 10 to 40 percent comes as capital net gain. In this lies the explanation for the decline of tax yield in the higher brackets in 1920 and 1921. The business crisis and depression in those years affected dividend payments and property values with particular severity. In spite of the frequent assertions that a large part of the investments of the wealthy are in tax-exempts there is no proof to support it and it seems clear that by far the greater part of the income in these groups is from dividends and from gains through the sale of property. Income from these sources declines quickly during business depression, but reappears promptly when business recovers.

Our two questions have been answered. We have noted both nominal tax rates and rates actually paid, and found the latter much lower than is generally supposed. We have found no support for the charge that existing surtax rates are too high for maximum yield, but have found instead that lower rates have brought lower returns. Incomes in upper brackets are larger and more numerous than in 1921 because business is active, but the yields that were temporarily larger in 1922 have fallen again in 1923.

MORE ABOUT TAX-EXEMPTS

Although we have already said a little about the charge that men of wealth are investing in tax-exempt securities a few words should be added here. The view that taxes are evaded in this way is so prevalent that every effort should be made to record the facts. These facts are (1) that the annual increase in the volume of tax-exempts is not great, but actually seems small in view of the tremendous amount of important and *productive* work thrown upon our states, municipalities, and other bodies issuing these securities and as compared with the total annual savings of the country; (2) that such investments would attract a considerable amount of capital in any case since they are relatively safe and since many state laws compel certain corporations to invest in them; (3) that for these reasons and perhaps others a high percentage of them is held by corporations rather than by individuals (it will be remembered that the tax on corporate net income is only 12½ percent); and finally that there is no evidence to support the assertion that wealthy taxpayers are placing a high percentage of their funds in these tax-exempts.

One interesting analysis is that made by Joseph S. McCoy, Government Actuary, and submitted to the Secretary of the Treasury on January 14, 1922. This estimate showed \$10,660,000,000 of tax-exempt securities issued in the United States and outstanding on January 1, 1922. But Mr. McCoy adds: "Of this amount it is probable that say \$5,660,000,000 is held by corporations such as Insurance, Surety and Bonding Companies, Banks and Trust Companies, etc., which are required to retain certain reserves." He goes on to point out that such

investments by these corporations would be compulsory whether these securities were taxable or not, and that of the remaining \$5,000,000,000 of tax-exempt securities outstanding at that date probably \$2,500,000,000 were so held that the gain to the government in taxing them would be nil. He estimates that "if all tax-exempt securities outstanding January 1, 1922, were made taxable, the gross increase in revenue to the government would be approximately \$120,000,000." This amount certainly is not large as compared with the amounts stated or implied in the discussions that have taken place. Moreover only a fraction of this estimated gain would have come from a lowering of surtaxes on personal incomes. Of the \$2,500,000,000 left in the calculation as not among the compulsory investments of certain corporations and as not being a source of revenue presumably because held by small investors, some part must have been in the hands of other classes of corporations. How much was so held we cannot be sure.

But we have a hint at least in the tax returns of corporations as given for 1922. In that year (see Statistics of Income for 1922, page 19) corporations reported among their receipts the amount of tax-exempt income which was of course deducted in order to ascertain their net or taxable income. This includes "Dividends on capital stock of domestic corporations" and "Interest on federal, state and municipal bonds." The second item is the one that concerns us, and we find that it amounted to \$394,042,049 for that year. The rate of interest on these bonds we do not know, but let us assume an average of 5 percent. Any one who objects may alter our calculation for himself by substituting a corrected rate. Capitalizing this \$394,042,049 at 5 percent we have as the principal sum \$7,880,840,980 of tax-exempt securities held by corporations in 1922. At the beginning of that year there were only \$10,660,000,000 of these securities reported outstanding and this figure makes no allowance for any maturities after July 1, 1919. But let us take the amount estimated as outstanding at the end of the year, i. e., \$11,321,000,000 and assume that this figure is net and that it allows for all maturities up to that date. Subtracting from this amount the \$7,881,000,000 we have estimated as held by corporations we have only \$3,440,000,000 as the amount in the hands of individuals at that time. Of this sum much is in the hands of small investors who seek safety rather than high yield and who are not in the surtax class. If at a guess, say 50 percent are in the hands of this class only \$1,720,000,000 are in the hands of those who pay surtaxes, and some of them, of course, pay low rates.

Still another line of inquiry sheds light on the matter and that is the amount of such securities found in the estates of decedents who are subject to the federal estate tax. Returns of resident decedents filed from January 1 to December 31, 1923

(the latest returns published), show aggregate gross estates valued at \$2,494,978,471. In these estates were the following tax-exempt securities. We also give the percentage of each group of securities to the total gross estates:

		<i>Percent of Gross Estates</i>
Federal government bonds		
Wholly tax-exempt.....	\$26,596,788	1.07
Partially tax-exempt.....	84,249,796	3.38
State and municipal bonds		
Wholly tax-exempt.....	82,550,768	3.31
Totals	193,397,352	7.76

Only 7.76 percent of these holdings were tax-exempt and of this total nearly one-half or 3.38 percent were only partially exempt, leaving but 4.38 percent invested in wholly tax-exempt securities. For the preceding year the returns showed only 7.66 percent of the gross estates invested in both groups of which only 3.59 percent were wholly tax-exempt.

No one dare say that this finally proves that other well-to-do citizens hold a similar proportion, but we are warranted in asserting that as yet there is no available information to support the view that the government is losing large amounts of revenue because of heavy investments by the wealthy in tax-exempt securities to avoid high surtaxes. Instead, all the information we have assembled points the other way. Until some one has presented other and more convincing evidence we may properly dismiss the charge as unproved. In fact we may go farther and insist that a priori reasoning and such facts as are available make it clear that tax-exempt securities are not being used extensively in the manner so often claimed.

Needless to say this does not mean that everybody is cheerfully paying all the taxes he can. Quite the contrary is probably true. Every legal device (and perhaps some that are illegal) is being employed in order to reduce the burden. It is probably true as charged that wealthy people with the aid of experts, find ways of reducing taxable income. They doubtless buy some tax-exempt securities, but only to a moderate degree. They are said to be investing heavily in insurance as a method of reducing taxable income. There is no reason to suppose they will gladly pay heavy taxes and the heavier their aggregate taxes the stronger the temptation to evade.

SOME CONCLUSIONS

But if these last statements are true what conclusions may be drawn from our analysis? First to be noticed is the rate of taxation actually being paid by the recipients of large incomes. In spite of references to a nominal maximum surtax rate of 65 percent in the law of 1918 in addition to the normal rate which is presented as though the large incomes paid a total of 77 percent in 1918 and 73

percent in 1919, 1920 and 1921 (see Treasury Report, 1924, page 9), the large incomes did not pay any such rate. The chart above on page 22 shows instead that the average rates actually paid were very much lower. Similarly the maximum surtax rate of 50 percent in the law of 1921 in addition to the normal rate of 8 percent on the large incomes did not mean that the federal government took 58 percent of the large incomes. Instead this same chart shows that in 1923 net incomes of from \$500,000 to \$1,000,000 paid on the average 26.81 percent and incomes of \$1,000,000 and over paid 23.53 percent. What is being paid by various income classes under the law of 1924 we do not know since returns are not available nor do we know what would be paid if the maximum surtax rate were lowered to 20 percent or to 15 percent as is being urged. If the actual rate of payment by the largest incomes under the law of 1924 bears the same relationship to the 40 percent maximum surtax rate of that year as actual rates in 1923 bore to the 50 percent maximum surtax rate then in force, the largest incomes in 1924 are paying only 18.82 percent. Applying the same method of calculation to the proposed maximum rates of 20 percent and 15 percent gives 9.41 percent and 7.05 percent for the largest incomes. Such calculations are, of course, hypothetical and should not be taken too seriously. They merely show possibilities.

Actual rates paid in 1923 went no higher than 26.81 percent for any income class. Was this too high? By too high no one seems to mean so high as to be in any sense inherently unfair to the taxpayer with a huge income. His capacity is so great that no one protests on the grounds that an injustice is being done him. Instead it is argued that the high rates are discouraging business and curbing initiative, a contention that we have shown is entirely inaccurate. Also it is urged that rates are so high as to tempt evasion particularly by investment in tax-exempt securities. That evasion exists seems probable, but there is no support for the allegation about the tax-exempts. Instead the evidence is overwhelmingly to the contrary. Large evasions are certainly not to be found in that direction. They may be occurring elsewhere, but no charge to that effect has received any attention and no evidence has been presented.

This then leaves the case as follows. There is agreement among authorities that tax rates may be so high as to defeat the avowed purpose of getting maximum revenue. If this is the case now it may be good sense to lower the rate. But are present surtax rates too high? Keeping our thoughts centred not on the amount apparently demanded by the rate, but the rate actually paid under the law our inquiry becomes this. Were the rates actually imposed in 1923 so high as to give undue encouragement to evasion and should they be lowered in order to secure larger returns? The average rate of tax per individual taxpayer, calculated as the

percentage which his total payment bore to his net income of that year was as follows for various classes of taxpayers with large incomes. What was paid in 1924 we do not know, but with a materially lower scale of surtax rates payments must have been considerably lower. But for 1923 the rates actually paid were:

Income Classes		Average Rate of Tax
\$ 25,000 to \$ 50,000.....	7.65	
50,000 to 100,000.....	13.07	
100,000 to 150,000.....	19.85	
150,000 to 300,000.....	23.83	
300,000 to 500,000.....	25.42	
500,000 to 1,000,000.....	26.81	
1,000,000 and over.....	23.53	

Should rates, that are already materially lower than this scale, be lowered still more in the hope of getting higher returns? Our experiment in lowering rates in 1921 certainly affords no proof that we should do so. The increases that came in 1922 were obviously due to the revival of business after 1921 and 1923 showed another reaction with lower yields under the lower rates. A comparison of the sources of personal income in 1922 and 1923 helps to make clear what happened. Recipients of wages and salaries gained the least—less than eight percent—while those whose income was received from other sources gained the most.

THE FEDERAL ESTATE TAX

Turning from the income tax, let us examine the estate tax. It is being urged that this source of revenue should be entirely abandoned by the federal government. The reasons for this view deserve thoughtful consideration but before analyzing them a few facts should be set forth.

Several times in the past the federal government has taxed inheritances. There was first the Revolutionary War Tax from 1797 to 1802. During the Civil War and again in the Spanish-American War this method of raising revenue was tried but in each case soon given up. Receipts under these laws were not very large, the highest yield from the Civil War law being \$3,092,000 in 1870 and from the later one \$5,357,000 in 1903.

Our present estate tax law has yielded much larger amounts. Year by year through 1924 the receipts have been as follows:

1917.....	\$ 6,076,575
1918.....	47,452,879
1919.....	82,029,983
1920.....	103,635,563
1921.....	154,043,260
1922.....	139,418,846
1923.....	126,705,206
1924.....	102,966,761

For 1925 the returns are not at hand but one preliminary, unofficial estimate (by Professor Seligman) was of 120 to 125 millions from the estate tax plus the gift tax. These yields, it will be noticed, are very much larger than under former federal

laws and are a significant item in current federal income.

The rate of the estate tax is most often described by referring to the 40 percent maximum rate imposed on large estates in the law of 1924. In discussing the income tax we noticed that such references are often misleading and the same caution should be exercised here. The law of 1924 actually prescribes this high rate in the following words: "40 percentum of the amount by which the net estate exceeds \$10,000,000." Moreover the law contains the following important provision as section 301 (b).

The tax imposed by this section shall be credited with the amount of any estate, inheritance, legacy or succession taxes actually paid to any State or Territory or the District of Columbia, in respect of any property included in the gross estate. The credit allowed by this subdivision shall not exceed 25 percentum of the tax imposed by this section.

With this wording one should not expect to find that the federal government is really taking 40 percent of the large estates, but something considerably less. The nominal rates in the law of 1921 ranged from 1 percent to 25 percent while actual payments made in 1923 under the law of 1921 ranged from 1.03 percent on net estates under \$50,000 to 21.67 percent on net estates of \$10,000,000 and over. The average tax paid was 5.05 percent of all the net estates subject to tax. In 1922 the range was from 1.03 percent to 22.36 percent with an average of 7.15 percent for all sizes of estates. The following chart shows the rates actually paid in 1923 by the various groups of estates and the average of them all.

We are thus not concerned with actual payments of 25 percent on large estates in 1923. None in 1923 was higher than 21.67 percent and the average was only 5.05 percent. This seemingly low average is due to the fact that most of the estates are small. The returns show that 99.26 percent of the returns filed were for estates of \$1,000,000 or less and hence would be subject in the present law to a nominal maximum rate of 12 percent or less. Rates higher than 12 percent would affect less than 1 percent of the estates which must file returns. Moreover the estates of from \$750,000 to \$1,000,000 paid only 4.70 percent in 1923 and the smaller estates paid less. It will be remembered

that the figures of actual returns that we have given are under the earlier law. Presumably the increase from 25 to 40 percent in the maximum rate in the law of 1924 means an increase all along the line but we do not yet have the data.

This is a very brief statement of the facts but it contains the essentials. Needless to say it implies neither criticism nor approval either of the law or of its administration. The federal estate tax unquestionably presents problems that are serious and that warrant a thorough presentation of all sides of the case.

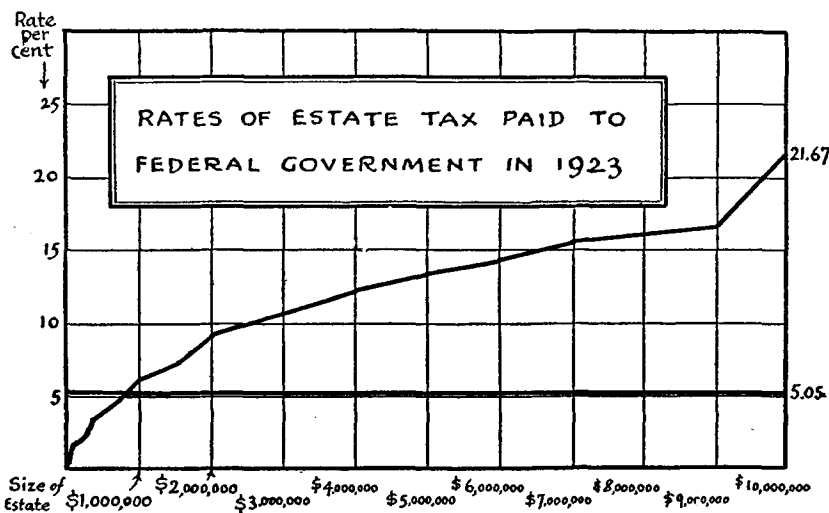
Before examining the reasons advanced for abandoning the tax it is well to notice briefly the argument for the taxation of estates or inheritances. Most of the current discussion seems to assume that such taxes are correct in principle and that high rates are warranted, the arguments centering around questions of expediency and of administration. In each case, however, it is well not to forget the

underlying considerations.

A tax on inheritances may be based on any one of several assumptions. To some this tax should be used as a method of redistributing wealth—in other words for purposes of social reform. To others the defense rests either on the privilege

of inheritance idea or on the idea of the copartnership of the state. The first of these ideas is that the heir of an estate is privileged in being allowed to receive a bequest and may properly pay heavily for that privilege. The second idea is that a large fortune is not proof merely of the ability of the one who accumulated it but even more of the contribution of society whose organization and efficiency made so much financial success possible. Society is a partner and the more important one.

Still another argument with which these two may be merged is the familiar ability or faculty theory. The beneficiary has received an income on which he may properly be taxed for the support of the state. Moreover since this income is not the result of his own efforts, there is no injustice in making the tax rate a large one and rapidly progressive. Since the state protects the heir in receiving an estate whose accumulation is largely due to partnership with the state itself and since a heavy tax does not deprive the heir of any of the results of his own labor the tax now meets but little opposition in principle. To this there are, of course, many exceptions but the generalization holds.



There is still left for answer (in the United States) the question of the proper taxing authority. Shall it be the local governments, the state government or the federal government? The first are quickly eliminated because of their other convenient sources of income, particularly real estate, and because of the difficulties they would encounter in levying and collecting such a tax. A man living in Chicago might be the heir of a decedent whose home had been in New Orleans and whose properties were located in Maine, California and Georgia. Also there might be other heirs living in Louisville, Denver and elsewhere. It is clear that Chicago would find the difficulties of levying and collecting such a tax insuperable. In other words the base of the inheritance or estate tax, like that of the income tax, is often very broad, covering the entire country and in many instances extending abroad.

But these same difficulties, though to a slightly less degree, confront our states. Each needs revenue and forty-six of them levy an inheritance tax. The rates vary but the tax is a general one. Yet their problems are numerous and since the federal government has entered the field to collect a tax on the estate and particularly since the federal rates were raised in the law of 1924 the protests have been vigorous. It is felt by many that the federal government should withdraw. Some defenders of the federal tax fear that the proposal to repeal the federal law is but the first step and that we may expect a concerted movement later to repeal the state laws one by one. This may be the case but it seems highly improbable that such a movement could succeed. The basic arguments for heavy inheritance taxes are so convincing even to individualists and to those with a strong *laissez faire* outlook that they are here to stay. To all appearances they are a permanent part of the tax systems of all leading countries and there is no sign of their abandonment. Such minor reactions against them as one finds say in Florida or (to look abroad) in Italy are minor and probably temporary. Our attention can be concentrated on the position of our own federal government in the matter.

ESTATE TAX NOT A DRAIN ON SOCIAL CAPITAL

Some of the arguments against the use of this tax by the federal government are based upon misconceptions that need to be cleared up. One of these views is that such a tax is objectionable because it is a tax on capital. One statement of this position is in the following words:

To take an excessive proportion of estates in this way for the cost of government can only mean that government will be living off the capital of the community . . . Differing from income taxes, which are deductions from what a taxpayer makes each year, and payment for which can presumably be made without hardship, inheritance and estate taxes are capital

taxes; they take a part of the accumulated capital of the nation.

It will be at once observed that this argument is one that applies to all inheritance or estate taxes including not merely the ones levied by the federal government, but also those imposed by the states. Its implications are sweeping but a moment's thought shows that the speaker misunderstood certain aspects of the case. First of all he seemingly overlooked the fact that other taxes than the one in question are levied on property rather than on income. The mere fact that the basis of a tax is on property or capital does not condemn it. If it did we must at once abolish the most wide-spread tax we have—the property tax. At any rate we would disapprove it in every case where the property taxed does not yield an income.

However, there is nothing inherently objectionable in a tax that is levied on capital. There is a loss (either of capital or of income) to any individual who is taxed, but that is very different from the contention that the community is the loser. It all depends on the use made by the government of the funds collected. If the tax receipts are used for productive purposes there is of course no community loss.

A glance at a few facts shows how groundless such fears are. Professor Seligman made this forcibly clear at the National Conference on Inheritance and Estate Taxation last February when he pointed out that capital values in the United States are some 320 billions. In 1922 federal and state inheritance taxes combined yielded only about 200 million dollars. Gross estates subject to federal taxation (both resident and non-resident decedents) were \$2,937,000,000. As Professor Seligman points out, a five percent rate on this sum for one year would yield nearly \$147,000,000. The net estates subject to tax at five percent would have returned \$83,642,000. In the first case one and one-half years, and in the second two and one-half years, interest would have paid the entire state and federal taxes. Since payments may in cases of undue hardship be delayed five years, there certainly need be no fear that such taxes are a drain even on the capital of the beneficiaries.

But even if they did prove to be paid by actual reduction of the capital holdings of the beneficiaries either on the average or in certain specific cases, it does not follow that there is any diminution of the capital of the community. If the liquid funds of the taxpayer are inadequate for the purpose and he is compelled to sell some of his properties in order to pay taxes, what happens? Nothing important, for the purchaser merely makes a payment out of his own liquid funds which must be a part of the current income of the community. Only on the absurd and crude assumption that the government seizes the physical properties and then burns or otherwise destroys them, can we imagine this tax being a drain on the country's capital. With a national or social in-

come of 60 billions or more each year there is no ground for fear that the present inheritance and estate taxes will make any inroads upon our accumulation of capital.

To those who declare the estate tax socialistic, no reply can really be made since their terminology is so careless as to prevent clear argument. The contention is usually nothing more than opposition to any proposal to apply consistently the faculty theory which they profess to believe but fear actually to use. If by socialism they mean government or social ownership and operation of business enterprises, then one must examine the activities of the government rather than its sources of revenue for the answer. If, however, the charge is the familiar one that the rich are being compelled to pay the taxes, the answer can be nothing but a reference to the faculty credo and a reminder that those who have the wealth and the income are the ones who have the ability.

Many fear that existing taxes will compel the breaking up of many large business enterprises to an extent harmful to the country, a frequently used illustration being the existing Ford fortune. The argument is a two-fold one: first, initiative and enterprise and thrift will be discouraged; second, properties sold to pay taxes on the estate will come into the hands of those who will administer them less successfully than would the children or other heirs of the decedent. A glance at the growth of large fortunes and the increase of large incomes in the United States should be reassuring on the first point. Fortunes are being accumulated and millionaires multiply even in the face of the dreaded taxes.

To the contention that these great fortunes may pass into the hands of those less fit to administer them several comments may be made. Sons do not always inherit father's genius while wives and daughters seldom have the opportunity to show whether they do or not. If properties are actually scattered in ownership, an outcome far less frequent than we often imagine, we may be cheered by remembering that able management is alleged to be scarce. The genius of a brilliant son or other heir will not be overlooked by harassed boards of directors who are seeking for executives to manage the property. Ownership and direction (and even control) do not always go hand in hand. If all other consolation fails one can suggest that the financial ability to buy a controlling interest is, *ex hypothesi*, a proof of genius and that if control passes into new hands the direction may still be skilful.

STATE VS. FEDERAL GOVERNMENT

All these criticisms are, however, against inheritance and estate taxation in general. Many who do not object to the principle of heavy progressive taxes in this field sincerely doubt the propriety of an estate tax by the federal government. The contention that it should be repealed since it has in the

past been used only as a war measure and hence is not to be considered a permanent part of our tax system is not convincing. The same can be said of our early experience with the income tax. It was used sporadically but has become a permanent part of our fiscal system because of our need for larger revenues, the superiority of a direct over an indirect tax and because of the fact that incomes are often not local but come from a national area. This wide basis that exists for the income tax is of importance also in connection with death duties.

That the states have need for the revenue from death duties may readily be conceded and must not be overlooked but it does not follow that we should have a complete separation of sources secured by the entire withdrawal of the federal government. This is not done in the case of the income tax since many states as well as the federal government use this source. Moreover the theory of separation of sources has not proved adequate. Our economic life is too intricate for any such easy division of sources among the various taxing powers. Then too a recognition of the need of the states is to be found in the provision of section 301 (b) of the present law which we quoted above. The federal government allows credit up to 25 per cent of the federal tax for any payments made to any state or territory or the District of Columbia.

Some have urged that declining yields from 1921 to 1924 are an evidence of the unsatisfactory nature of the federal tax. Needless to say this means little. A slight fluctuation in the values of estates from which returns are filed, particularly the presence or absence of a few large fortunes will make and have already made significant differences from one year to another. The most significant argument to be noted is that there is much double taxation and many long and harassing delays in settling estates. Even here the arguments may be overstated. Double taxation is not in itself objectionable. It becomes so only if it results in a considerable amount of discrimination between similar estates or if the aggregate taxes imposed are unduly large. Also a large amount of delay and some annoyance will persist unless we are completely to abandon death duties. When decedents and heirs and properties are domiciled or located under numerous taxing jurisdictions this is hard to avoid.

Nevertheless the difficulties alleged are undoubtedly real and call for attention. Yet there may be a chance for different conclusions regarding the solution. The withdrawal of the federal government is not the wise course. In fact, what has already been said about this tax suggests an entirely different view. The federal government is only one of many. There are some forty-six states levying these taxes. The withdrawal of one—the federal government—would still leave the rest to deal with and would complicate rather than simplify the problem.

This may be made clear if we again notice the provision of section 301 (b) to which we have twice

referred. Much relief could be given by raising the 25 percent credit therein allowed to a higher level which is one of the suggestions of Professor Seligman upon whose arguments on the estate tax we have already drawn freely. Interstate agreements, he points out, are desirable but could be secured only in the face of enormous obstacles. Hundreds or even thousands of separate agreements are necessary if each state is to make agreements with each of the others. Even in principle the difficulties are so great as to make the problem hard, but differences of economic interest are so numerous and so serious as to dishearten one at the outset.

Instead he urges federal assistance, not through withdrawal from the field but by remaining in it.

This paper makes no attempt to outline the detailed changes that ought to be introduced. The writer believes with many others that death duties have come to stay; that if the federal law is repealed it would soon be re-enacted; that the nature of the tax puts the federal government in the best position for utilizing it as a source of revenue with proper attention to the needs of the states; and that the withdrawal of the federal government from the field would lessen the existing confusion only a little while removing the only influence that can be utilized helpfully. Death duties are more fair and less burdensome than most forms of taxation. They should and will be retained and the repeal of the federal law would be a step backward, doing little to correct existing evils and delaying any real advance.

GENERAL CONCLUSIONS

This discussion of federal taxation is not that of a technical tax expert and so has avoided many issues of importance. It has merely presented those elementary theories and available facts on which all of us, expert and otherwise, should be able to agree. Our federal expenditures are increasing, not diminishing; the debt should be reduced with all possible speed; rapid liquidation is not injuring business in general and from the very nature of the case cannot do so; lower rates of income tax are not bringing higher yields but lower, particularly from the large incomes, and the rates actually paid are much lower than we fancy. Income taxes should not be reduced at all, but if they are the reductions should come in the lower brackets and not in the higher ones.

Death duties can be most satisfactorily handled with the federal government coöperating. Along with the income taxes they are the most democratic way of securing government revenue, the best application of the faculty theory. Rates now existing need not be lowered but much can and should be done to eliminate existing discriminations and perhaps occasional cases of unduly heavy combined rates. This can be done best, however, with the federal government as the leader.

Copies of this Supplement

may be had in bulk at the rate of five cents a copy. Orders at this rate must be for ten or more copies, and remittance should accompany order. Heed well—Congressmen and Professors and Students of Economics!

Address

THE NEW REPUBLIC

421 WEST 21ST STREET

NEW YORK

LAST CALL

After November 10th, orders for the NR-Atlantic-Mercury combination at ten dollars must be returned unfilled. Ten dollars then, if you are an over-the-counter buyer, won't even buy the first two. While for all three in a year you will be spending \$18.60. Is it any wonder orders are pouring in?

Fair Warning

By acting now, you save \$8.60, and secure the ideal magazine assortment (two monthlies and a weekly) for a full year. The magazines may start now or at the expiration of current subscriptions. They may go to the same address or to different addresses. You may even hold one for a Christmas gift—or all three. And what royaler gift for that hard-to-please Friend with a Mind? But don't delay. Act now.


THE NEW
REPUBLIC
421 West 21st Street
New York City

For the enclosed \$10 send the three to:

Name

Address

in full

10-28-25